S. HRG. 103–1050

THE ADMINISTRATION'S CROP INSURANCE PROPOSAL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

THE ADMINISTRATION'S CROP INSURANCE PROPOSAL

MAY 11, 1994

Printed for the use of the Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE

92-780 CC WASHINGTON : 1994

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047516-3

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CONTENTS

APPENDIX

THE ADMINISTRATION'S CROP INSURANCE PROPOSAL

WEDNESDAY, MAY 11, 1994

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, DC.

The committee met, pursuant to notice, at 10:13 a.m. in room SR–332, Russell Senate Office Building, Hon. Patrick J. Leahy, Chairman of the committee, presiding.

Present or submitting a statement: Senators Leahy, Pryor, Conrad, Heflin, Daschle, Helms, Kerrey, Feingold, Lugar, Cochran, McConnell, Craig, Grassley, and Baucus.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

The CHAIRMAN. Good morning. We have been discussing the reinventing of government for many months, and last month the Senate voted 98 to 1 to pass a USDA reorganization bill. This is the first legislation that is actually designed to reorganize an Executive Branch department, and I am glad to say that this committee moved so quickly on this bill—and the Senate did as well.

I think Senator Lugar and I demonstrated that if you work together in a bipartisan spirit, you can reform bureaucracies that have been resistant to change and, in fact, many thought were immune to change. I hope that that will continue, but if you are going to reinvent government, it means a lot more than simply changing government structures. If we want to make our Government work better, we need to change our outdated policies as well.

Today, we are considering the reform of policies which dictate the way we handle agricultural disasters. In the years that I've been on this committee, I've found that they occur much too frequently. Every time there is a major disaster, Congress goes and passes an ad hoc disaster assistance bill. The problem with that is that these bills are ad hoc. They are inherently unpredictable. The farmers don't know what kind of help they can expect in a time of need.

Also, we are usually rushing to get something done and out, and sort of reinventing the wheel each time we do it. Ad hoc disaster bills are treated as emergency legislation, not subject to normal pay-as-you-go rules, so they then get loaded down with another legislation that probably shouldn't have seen the light of day.

I think that if then, we can improve the exisiting Crop Insurance Program, we can get rid of the need for ad hoc disaster programs, we can improve the exisiting Crop Insurance Program. Frankly, I would strongly urge all my Colleagues to join with us in trying to improve the Crop Insurance Program because I am not sure that I want to—or even could—continue to pass bills for agricultural disaster programs that aren't done in a pay-as-you-go fashion, when people keep asking the same question: "Why don't they buy insurance?"

We can have a better insurance system—and people should.

I would hope that the word would go out very clearly that the Congress is going to be less and less apt to pass disaster relief bills, when they know that insurance was available. Congress came very close to that on the last major disaster in Los Angeles. In the House of Representatives, they came within a few votes of requiring offsets. Certainly, initiatives requiring offsets for disaster payments for crop loss should be expected when legislation is considered.

So, we have to eliminate that which, I think, is the senseless duplication of separate crop insurance, and disaster programs that cover the same losses on the same crops. We should no longer need to consider ad hoc disaster bills that are exempt from normal budgetary rules.

The reform of crop insurance and disaster programs has the broad support of farmers and the administration. I would like to see quick consideration of legislation. I think it would give us order and predictability. I know I have had many discussions of this with Senator Kerrey, who has been pushing for real reorganization of the Crop Insurance Program. I *will be* relying heavily on him since he is from a State that uses this far more than my own State.

[The prepared statement of Senator Leahy follows.]

STATEMENT OF SENATOR PATRICK J. LEAHY

Discussion about reinventing government has persisted for many years. Last month, the Senate voted 98 to 1 to pass our USDA Reorganization bill—the first legislation designed to reorganize an executive branch department—and I am proud that this committee moved so quickly on this bill. Senator Lugar and I demonstrated that it is possible to work together, in a bipartisan spirit, to reform bureaucracies many thought were immune to change. I hope that this spirit continues.

Looking to the future, reinventing government will mean more than simply changing government structures. In order to make our Government more efficient, we need to make changes in outdated policies as well.

Today we are considering reform of policies which dictate the way we handle agricultural disasters—disasters which occur all too frequently.

Each time there is a major disaster, Congress passes an ad hoc disaster assistance bill. Ad hoc disaster bills are inherently unpredictable, and as a result, farmers do not know what type of help they can expect in times of need. Because disaster bills are treated as emergency legislation, not subject to normal pay-as-you-go rules, they get loaded down with unrelated legislation that would otherwise never become law.

By improving the existing Crop Insurance Program we can eliminate the need for ad hoc disaster programs. Farmers, lenders, and the rest of the country would know what to expect the next time there is a disaster. We need to eliminate the senseless duplication of separate crop insurance, and disaster programs that cover the same losses on the same crops; and, perhaps most importantly, Congress would no longer need to consider ad hoc disaster bills exempt from normal budgetary rules.

The reform of crop insurance and disaster programs has the broad support of farmers and the administration, and I intend to push for quick consideration of this legislation. The Crop Insurance Reform Act of 1994 will give order and predictability to crop insurance programs and at the same time help us help farmers respond to agricultural disasters.

The CHAIRMAN. With that, I yield to Senator Lugar.

STATEMENT OF HON. RICHARD G. LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you very much, Mr. Chairman. The Federal Crop Insurance Program needs reform. We must end the practice of enacting annual ad hoc farm disaster programs. While the Crop Insurance Program has certainly had its problems, perhaps the strongest disincentives to buy crop insurance have been the disaster bills themselves. Why should producers pay for something that ultimately the Government will provide free of charge?

I believe that FCIC has made significant strides in recent years in reducing abuse and improving the program's overall actuarial soundness. There is no doubt in my mind that the administration's proposal would lessen the demand for future ad hoc disaster assistance legislation, but my impression is that many farmers would not be covered by the catastrophic protection offered in the administration's proposal if U.S. agriculture experienced a widespread drought such as the drought of 1988.

Despite the administration's assertions to the contrary, many agricultural economists who have studied the issue say that farmer purchases of additional protection will increase little in response to the added premium subsidies. As a result, in the event of another 1988 type drought, the Congress might continue to face strong pressure to enact ad hoc assistance in addition to that provided by the Reform Proposal. In that event, procedural hurdles designed to make ad hoc disaster assistance more difficult might be ineffective.

We need more information on this issue in order that the committee can make an informed decision. Specifically, of the farmers who received disaster ad hoc payments in 1988 and 1993; to take 2 important years, how many would have received payments had the administration's Reform Proposal been in place? I believe that we need this information by crop, State and county, and we need to know both the number of farmers and dollar amounts received. In addition, we need a comparison of the overall costs of these two approaches under these very different weather events.

Even if the administration's proposal succeeds in preventing future ad hoc disaster bills, we should ask ourselves, at what price. Despite statements of budget savings, the administration's own cost estimate of this proposal shows that Federal spending on crop insurance would grow rapidly and would begin to cost the taxpayers more than the combined cost of crop insurance and ad hoc disaster payments by fiscal year 1999.

The Congressional Budget Office says the proposal's costs will begin to outstrip current program costs a full 2 years earlier, by fiscal year 1997. Over the longer term, the proposal is expected to cost significantly more than current programs. If this reform plan is to have any chance of passing, it must be budget-neutral, and the current plan, at least in my judgment, is not.

Finally, I am concerned that the administration's draft legislation which was introduced in the Senate yesterday would create new unlimited authority for FCIC to use Treasury funds to pay indemnities and all administrative expenses. As a result, FCIC administrative reimbursements to insurance companies would no longer be subject to the spending discipline of the congressional appropriations process.

Mr. Chairman, I look forward, as always, to working with you in a bipartisan manner to see how these issues can be resolved in a manner which is attractive to producers and fair to taxpayers.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Senator Richard G. Lugar follows.]

STATEMENT OF SENATOR RICHARD G. LUGAR

Thank you, Mr. Chairman. I believe that the Federal Crop Insurance Program needs reform and that we must end the practice of enacting annual ad hoc farm disaster programs. While the Crop Insurance Program has certainly had its problems, perhaps the strongest disincentive to buy crop insurance has been the Disaster bills themselves. Why should producers pay for something that ultimately the Government will provide free of charge. I believe that FCIC has made significant strides in recent years in reducing abuse and improving the program's overall actuarial soundness.

There is no doubt that the administration's proposal would lessen the demand for future ad hoc disaster assistance legislation. However, my impression is that many farmers would not be covered by the catastrophic protection offered in the administration's proposal if U.S. agriculture experienced a widespread drought, such as in 1988. Despite the administration's assertions to the contrary, agricultural economists, who have studied the issue, say that farmer purchases of additional protection will increase little in response to the added premium subsidies.

As a result, in the event of another 1988 type drought, the Congress might continue to face strong pressure to enact ad hoc assistance in addition to that provided by the Reform Proposal. In that event, procedural hurdles designed to make ad hoc assistance more difficult would likely be ineffective.

I believe we need more information on this issue so that the committee can make an informed decision on the administration's proposal. Specifically, of the farmers, who received ad hoc payments in 1988 and 1993, how many would have received payments had the administration's Reform Proposal been in place? We need this information by crop, State, and county, and we need to know both the number of farmers and dollar amounts received. In addition, we need a comparison of the overall costs of these two approaches under these very different weather events.

Even if the administration's proposal succeeds in preventing future ad hoc disaster bills, I believe we must ask ourselves at what price? Despite their statements of budget savings, the administration's own cost estimate of this proposal shows that Federal spending on the Crop Insurance Program would grow rapidly and would begin costing the taxpayer *more* than the combined cost of crop insurance and ad hoc disaster payments by fiscal year 1999. The Congressional Budget Office says the proposal's cost will begin to outstrip current program costs a full 2 years *earlier*, by fiscal year 1997. Over the longer term, the proposal is expected to cost significantly more than current programs. If this so-called reform plan is to have any chance at passing, it must be budget-neutral. The current plan is not.

Finally, I am concerned that the administration's draft legislation, which was introduced in the Senate yesterday, would create new unlimited authority for FCIC to use Treasury to pay indemnities and all insurance company expense reimbursements. As a result, FCIC administrative reimbursements to insurance companies would no longer be subject to the spending discipline of the congressional appropriations process.

Mr. Chairman, I look forward, as always to working with you in a bipartisan manner to see how these issues can be resolved in a manner that is attractive to the producer and fair to the taxpayer.

The CHAIRMAN. Senator Conrad?

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman. First, I would like to welcome Mr. Ackerman and to commend him for the aggressive effort at outreach that he has made. I think I have never seen anyone in his position be as accessible or as willing to go out around the country to hear the view of farmers, insurers and others directly, and I want to thank him for that responsiveness. I think it is important as we move forward with this effort.

Crop insurance is terribly important to my State. Typically, North Dakota has been one of the highest participation States in the Nation, peaking at 90 percent in recent years. In 1993, we were down to 62 percent, and one of the reasons we are down is because farmers look at the cost benefit and they say, "Gee, because we have had a series of disasters, our yield base is going down." They then begin to wonder about whether it makes sense to participate. That is something that needs to be addressed as we move forward. I hear that a lot. In fact, I was just home this weekend and heard a good dose of it this weekend.

I am generally supportive of the approach that is being taken to combine disaster programs with crop insurance because I recognize, and certainly the people I represent recognize, that we could face a situation in which we have had a disaster perhaps just limited to North Dakota and South Dakota—perhaps Nebraska—and we wouldn't get any disaster assistance. We are realistic about this and we know we could face a disaster that had limited geographic impact and there wouldn't be a disaster program, and that would in itself be a disaster.

Let me just say I have been here 7 years in the U.S. Senate and we have faced three disasters in my State, and extraordinary disasters—in 1988 and 1989, the worst drought since the 1930's. The Chairman was good enough to come to our State and see, firsthand, what we were experiencing then, and it was extraordinarily important that there be a disaster program because it meant the difference between economic life and death for—literally—thousands of farmers in my State. Then last year we had the 500-year Flood. I mean, it is perverse, almost, what has happened in recent years.

So we have a healthy respect for what the Disaster Programs have meant. They have meant there are literally thousands of family farmers in my State that are still on the land that wouldn't be there otherwise, and so we are very interested in making certain that any replacement program provides that same assurance.

Mr. Chairman, I will refrain from the rest of my statement just to say that I thank you very much for having this hearing because I think it is an important one.

The CHAIRMAN. Thank you. I remember very much that trip out there. I thought I would never consider that we would have a dry period again in Vermont after seeing what you had there. I remember standing in one of those fields where we took the auger and dug down. It was a field growing a crop that had about a 3- or 4-inch root system, and the first water we found, as I recall, was about 18 or 19 inches down the first moisture. It was amazing.

[The prepared statement of Senator Conrad follows.]

STATEMENT OF SENATOR KENT CONRAD

Thank you, Mr. Chairman, for holding this hearing on the administration's Crop Insurance Reform Proposal. I am eager to begin substantive debate on this proposal, and appreciate your quick action.

I welcome Ken Ackerman to this hearing and want to take a few moments to commend him for his leadership of the Federal Crop Insurance Corporation (FCIC) thus far. I am impressed by his understanding of the program and his responsiveness to problems that arise. I have also been very pleased by his willingness to travel around the country discussing the Crop Insurance Reform Proposal with farmers, insurance companies, bankers and elected officials. Mr. Ackerman, I just want to thank you for your reasonableness, flexibility, and responsiveness.

Crop insurance is vitally important to my State. Historically, North Dakota has one of the highest participation rates in the country. In recent years, participation peaked at nearly 90 percent, although in 1993 it is down to 62 percent. The most important issues that my farmers believe crop insurance reform should address are affordability, adequate coverage, and dependability.

I am concerned about the competition between disaster assistance programs and crop insurance. I hope that we can enact a program that provides a more sensible and dependable method for covering catastrophic losses. However, I want to emphasize that disaster assistance has been the lifeblood for many of the farmers in my State in the repeated catastrophic disasters we have experienced in recent years. In many cases, it has meant the difference between staying in business or facing bankruptcy or foreclosure. To be of value, a catastrophic coverage program must provide benefits to farmers at least equal to what they have received in disaster assistance.

As we debate crop insurance reform, I would like to develop ways to improve the current coverage—that is called "buy-up coverage" in the proposal. I am pleased by some of the improvements included in the proposal, such as increasing the highest yield coverage to 85 percent of actual production history or 95 percent of area yields, and providing actual market price coverage as an option for farmers. I think we all agree that additional improvements are needed.

I also want to see what we can do to prevent abuse to the program. FCIC has actively pursued abuse by farmers. I would like to see it more aggressively pursue unscrupulous private companies, agents and adjustors which deliver the program.

Finally, I would like to see if there is a reasonable way to reduce the cost of the program, in order to both reduce premiums that farmers pay and the cost to taxpayers. Increased compliance efforts could significantly save money. I would also like to pursue other avenues for cost savings.

Again, I want to welcome Mr. Ackerman to this hearing, and look forward to discussing the proposal with him.

The CHAIRMAN. Senator Grassley?

STATEMENT OF HON. CHARLES E. GRASSLEY, A U.S. SENATOR FROM IOWA

Mr. GRASSLEY. Mr. Ackerman, perhaps I should, like Senator Conrad, compliment you for your work in this area, but I was prepared to compliment Secretary Espy because I read about his being involved in the newspaper and agriculture publications promoting this change. So I was going to thank Secretary Espy for getting the ball rolling again.

I believe that the replacement of ad hoc disaster assistance payments with a sound crop insurance program will benefit both the farmers and, in the spirit of reinventing government, also benefit the taxpayers of this country. I have supported reform of crop insurance in the past, and some examples of some changes, I felt, needed to be made would include my cosponsorship of bills; or amendments to extend crop insurance coverage to losses, due to late, or preventive planting. Therefore, I am happy to see that some of these changes have been made in this legislation.

I am also pleased to see that this proposal authorizes the use of actual production history in determining yields, and establishes a catastrophic yield floor to protect those farmers who have been adversely affected by weather related events such as the 1993 Floods. It seems to me that these provisions represent great improvements over the current program.

The reform of crop insurance is of vital interest to the farmers, I suppose, of every State, but it seems to me like I hear it an awful lot in my State as well. That is probably due to the widespread effects of the recent natural disasters, such as the 1988 Drought and the 1993 Flood. It seems that that has brought some renewed interest to this whole issue, and I think we ought to take advantage of the current thought and support at the grass roots to do something.

Obviously, the current system is simply not allowing farmers to manage their risks effectively, and the Federal Government can't predict every natural disaster, but to the extent to which we can encourage the management of risk, it is a pretty good principle for government to be involved in and this is a start in that direction.

The low participation rates in the program has resulted in a reliance on ad hoc disaster assistance, a reliance that could prove to be dangerous to farmers, particularly because of our current budget constraints and what the Budget law is, but also there is a situation where, if you get isolated disasters in certain parts of the country, they don't always translate into a national consensus—in fact, they seldom do—that there ought to be help for a specific disaster if it is isolated. It seems to me that this solves some of that problem. We have a national consensus that is being expressed in this bill.

Consequently, it is my hope that we can develop a program that will give an incentive for farmers to participate in crop insurance and to reduce their reliance upon disaster assistance. Although the farmers in my State have benefitted from disaster assistance payments in the past, the majority of farmers I have spoken to would welcome the replacement of ad hoc disaster assistance with a good crop insurance program.

However, it seems to me that they want to accept a program that will offer them the same kinds of assurance that they have historically received through disaster assistance. I know that there is always a political question, will that happen, but in recent years it has basically happened. With that in mind, I think that this proposal offers a good starting point for reform that farmers in my State would support.

As I stated earlier, this proposal addresses many of the concerns that I have had over the years. However, I do have a few concerns and I look forward to these being addressed during the questioning period.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Kerrey?

STATEMENT OF HON. J. ROBERT KERREY, A U.S. SENATOR FROM NEBRASKA

Senator KERREY. Mr. Chairman, first of all, I thank you and Senator Lugar for your work on the Crop Insurance Proposal. I have a particular small problem with USDA that I hope to clear up so that when the reorganization bill comes back over from the conference——

The CHAIRMAN. They haven't cleared that up yet?

Senator KERREY. —you are going to be able to say it is unanimous instead of having to do this 98 to 1 declaration.

I truly am grateful that you are pushing this crop insurance legislation, and I am grateful to Secretary Espy for having made a promise about a year ago and then, conscious of the need to fulfill that promise, he fought not only to get the legislation itself prepared and introduced, but also made sure that we got a sufficient amount of money in the budget to allow us to make this program work.

I believe, Mr. Ackerman and Mr. Smith, that there will be a number of things that we will have to do on the floor in order to persuade our Colleagues that this legislation is both necessary and reasonable and workable, given the budget problems that we have.

First of all, we are going to have to make it clear that this is not a new entitlement program, that it is an effort to replace the Disaster Program, and we are going to have to make sure that that not only comes across loud and clear to our Colleagues, but that it comes across loud and clear to everyone who is involved with production agriculture.

We can't pass this legislation and then come back to the trough a year later or 2 years later asking to be bailed out in addition to what we have with crop insurance. We have to be very explicit in declaring that to taxpayers, to Members of Congress, and most particularly to people that are involved with production agriculture.

I also think that we have got to explain in a very calm fashion the way that agriculture is different than other kinds of businesses. Planting decisions are made by roughly 600,000 independent small businesses—even large farmers are typically small compared to most other businesses—independent decisions that are made by these usually family-based units will determine the success of roughly 20 percent of our economy. It is a remarkable system.

Today, as a consequence of insisting on market orientation in the program and insisting on sound practical research that is extended to producers, agriculture is the most productive sector of our economy. That is not political rhetoric. It is true. We are more productive and more competitive in agriculture than any of our OECD competitors, more productive on a percentage basis than the computer industry, the automobile industry, more competitive than any other sector of the United States economy.

It is a remarkable success story, and as a consequence of our concern for consumers, we have made a decision to maintain an inventory so that we don't find ourselves running short of food and very unexpectedly facing high commodity prices and spikes in food prices and that sort of thing. We maintain that inventory on behalf of consumers, and as a consequence of that inventory we place the producer at somewhat of a risk because of the economics of food supply.

There is not today, in a competitive environment, much room for error in agriculture. There was an observation made in last month's issue of *Top Producer* where a farmer said, in pure competition, which is what agriculture is today, over the long run cost almost equals price for the average producer. That means that over the long run for many producers there is no margin, and certainly there is no margin for error out there today.

Crop insurance is critical, in my judgment, because it can increase a producer's margin of safety both in the short run and in the long run. There are four solid reasons why crop insurance is preferable to the Disaster Program as a risk management tool.

First, it is bankable. A farmer can literally take it to the bank, and you can't do that with disaster payments. They are too dependent upon the whims of Congress. Second, crop insurance is market-oriented. With a policy in place, a farmer has the confidence to forward contract or to hedge.

Third, crop insurance is tailor-made risk management. It allows the producer to assess his own risk. Very closely connected to that, a farmer can expect more meaningful coverage under crop insurance. Under the Disaster Program, farmers typically receive less than what they do under the Crop Insurance Program because crop insurance is based upon a producer's actual proven yield rather than the usually lower fixed ASCS program yields. In addition, disaster payments are based on a farmer's total loss, whereas crop insurance, as you know, offers coverage based upon individual fields or units, which is vastly preferable to farmers.

Fourth, and finally, there is more fiscal discipline and far less political influence with crop insurance. Under crop insurance, indemnity payment rates, loss adjustment procedures, and so forth, are clearly established, and rates reflect risk.

So I appreciate and applaud the Secretary's decision to fulfill this promise. It is very important that Secretary Espy receive a great deal of credit for the work he has done and the commitment that he has made to make this program work.

I have some specific questions that I will ask later about the dual delivery provision, as well as the linkage requirement. I think we need to examine both of those to make sure that this program, in fact, works for the farmer.

Thank you.

The CHAIRMAN. Thank you.

Senator Daschle?

STATEMENT OF HON. THOMAS A. DASCHLE, A U.S. SENATOR FROM SOUTH DAKOTA

Senator DASCHLE. Thank you, Mr. Chairman. Let me also commend you and Senator Lugar for your leadership and the tremendous effort that you have already put forth in bringing about meaningful reform in crop insurance. Let me add to my accolades the names Dallas Smith and Ken Ackerman because they certainly have been as cooperative as we might hope to expect, and I appreciate very much their willingness to work with us as we have begun to construct a real reform effort.

My Colleagues have all been very eloquent in describing the need and talking about how we address that need with crop insurance reform. I think in South Dakota there is a perception, really, of two things. First of all, disaster payments are too unpredictable and they are not a good risk management tool—Number 1. Number 2, crop insurance as it exists today requires farmers to pay too much and receive too little.

As a result of that experience, farmers are very skeptical about our ability to address both concerns effectively. They would like to see disaster payments continue if crop insurance is not meaningfully reformed, but they would like to see crop insurance reformed. They honestly believe that it is a viable and a much more preferable alternative than disaster payments.

The CHAIRMAN. I agree.

Senator DASCHLE. So that is our challenge, really, to create and to construct meaningful reform that replaces disaster assistance, recognizing the need for risk management as well as predictability. I think we can do that. I think this bill is a very good start.

I may offer an amendment as we go into markup which would allow farmers to buy dollar coverage. I believe that we ought to buy crop insurance the way we buy other forms of insurance, and we have talked to many of you about that and I would like to get into a discussion about that at some point. Yet, again, let me conclude with the way I began by thanking our leadership for their effective effort, and indicate my desire to see this thing through successfully this year.

I have a formal statement that I would like submitted for the record.

The CHAIRMAN. It will be included in the record. Along with the statements of Senators Cochran, McConnell, Craig, Pryor, and Feingold.

[Testimony resumes on page 16.]

[The prepared statement of Senator Daschle follows.]

STATEMENT OF SENATOR THOMAS A. DASCHLE

Mr. Chairman, I would like to begin by thanking you for holding this hearing to consider the administration's plan to reform the Nation's Crop Insurance System. The proposal before us today would, for the first time, provide America's farmers with an effective, reliable, and reasonably priced risk management tool to protect them from natural disasters. I am truly proud to be a cosponsor of this bill.

Also, I would like to commend President Clinton and Secretary Espy for their quick action on this critical issue.

In addition, Dallas Smith and Ken Ackerman, who are both before us today, deserve great credit for putting together the nuts and bolts of the administration's proposal. Mr. Ackerman, in particular, has worked tirelessly on the plan, gathering input from producers and insurance agents all across the country, including those in my home State of South Dakota.

The severe flooding that producers across the Midwest faced last summer served as a painful reminder of the inadequacy of our current Crop Insurance Program. The devastation in my State was as vast as any I have seen. Much of South Dakota's most productive farmland was reduced to virtual swampland, filled with nothing but water and weeds. In the face of this terrible disaster, most producers had not purchased crop insurance coverage, and those with insurance quickly realized that it did not cover them when they were unable plant their crops.

The failure of the current Crop Insurance Program forced Congress to once again implement an ad hoc disaster program. That program has provided essential relief, but in the long run ad hoc programs are the wrong approach to risk management. The quality and reliability of these programs have been highly variable in the past, and as budget pressures increase they will likely become even more so in the future. When faced with of this type of uncertainty, farmers have great difficulty making sound financial plans and securing adequate credit.

The proposal that USDA is putting before us today eliminates many of the problems in the current Crop Insurance Program and promises to move us away from our dependence on unreliable ad hoc disaster programs.

By paying minimal administrative costs, producers will be able to purchase catastrophic insurance that will provide them with protection similar to last year's disaster program. Farmers will be able to count on this coverage, even taking it to the bank as collateral to secure a loan. It is truly an innovative step forward, that will benefit farmers *and* result in a savings of $750 million over the next 5 years when compared to current disaster program and crop insurance expenditures.

FCIC is also instituting other changes to make the program more cost effective and attractive. Among these changes are provisions to use producers' 4-year actual production histories to determine their insurable yields, and to increase the premium subsidies for higher, electable levels of insurance coverage. Combined, these practices should make the program more attractive to good farmers and increase participation in the program.

In addition, these changes will allow FCIC to identify and deal with high-risk customers and crack down on those defrauding the program. I am also pleased to note that FCIC has already begun to provide prevented planting coverage in insurance policies on all program crops and soybeans. The lack of this type of coverage was one of the most glaring flaws that last year's flooding exposed in the program, and the quick action to correct it is greatly appreciated. Unfortunately, there has already been some confusion over whether producers who had water on their land as of the April 15 signup deadline are eligible for this coverage. I trust that we will be able to continue to work together to resolve these producers' situations equitably.

One change in the Crop Insurance Program I have long advocated is offering coverage in a simple dollar amount virtually every time I discuss the crop insurance with producers in South Dakota, they point out how difficult it is to understand current coverage levels because of the way they are presented. They would like to see crop insurance coverage offered in dollars-per-acre terms like hail insurance currently is. Doing this makes great sense because most producers measure their input costs in dollar-per-acre terms, and have a more concrete idea of their insurance needs when coverage levels are expressed in these terms. I look forward to working together as this process moves forward to incorporate this simple dollar coverage concept into the new program.

Again, Mr. Chairman, thank you for your leadership on this issue. I look forward to hearing from our witnesses.

[The prepared statements of Senators Craig, Helms, McConnell, Pryor, Feingold, Cochran, and Baucus follow, respectively.]

STATEMENT OF SENATOR LARRY E. CRAIG

Mr. Chairman, thank you for holding this hearing. I believe the Members of this committee are unanimous in the belief that the Federal Crop Insurance Program and the Ad hoc Disaster Programs of the past few years need to be consolidated and adjusted. It is both confusing to those involved as well as costly for us all to continue as we have these past few years.

I would also congratulate the administration and the Manager of the Federal Crop Insurance Corporation, Mr. Ackerman, for the many hours of work that has been put into the proposal that is before the committee.

Having said that, as one who has participated directly in production agriculture, I know the difficulties in dealing with government agencies on issues such as these. This is particularly true when they become mandatory and restrictive as this proposal tends to be. In the proposal there is a very low rate for the minimum mandatory coverage. As we all know, that minimum cost can easily be changed by a Congress thirsty for new money for the "good and legitimate" program of the moment. I need not remind my Colleagues of the very low rate at which the income tax was initiated.

Several questions have been raised and suggestions for changes in the bill as it is now constituted have been made by the Farm Bureau and others. I will have some questions as well. I look forward to the information that will be gathered in this hearing and hope we can indeed achieve true crop insurance reform that will equitably treat our farmers and the taxpayers of the United States.

Mr. Chairman, Thank you.

STATEMENT OF SENATOR JESSE HELMS

Mr. Chairman, during the years that I had the honor of chairing this committee, former Tennessee Congressman Ed Jones and I, together crafted a crop insurance and disaster protection program geared to provide the American farmer with a safety net at a price affordable to both the farmers and the taxpayers. I was gratified that the Jones-Helms' efforts were enacted into law, and regret that Congress never got around to exercising the fiscal discipline necessary to execute those reforms.

As a result, the Agriculture Committee again confronts this dilemma as it prepares to examine the administration's proposed "Federal Crop Insurance Reform Act of 1994." As we embark upon this process, the committee would do well to keep in mind the Federal Debt, which as of Monday, May 9, 1994, stood at $4,572,080,412,621.63. Averaged out, every man, woman, and child in America owes a share of this massive debt, and that per capita share is $17,536.97.

So, Mr. Chairman, while I agree that the Federal Crop Insurance Program needs major repair, I also caution against agreeing to a program that would put the financial future of our country in even greater jeopardy.

The advocates of this proposed new program point to its elimination of the current costly ad hoc disaster payments which has, indeed, placed a burden on the Government's—and, in turn, the taxpayers'—wallet. However, a congressional research service report on Federal Crop Insurance states, "If the goal is to enhance participation to the point that crop insurance becomes a permanent replacement for disaster payments, some argue that chronic deficits may become a necessary evil." I think all Senators would agree, our country cannot afford such a "necessary evil." Certainly, I cannot and will not be a party to "chronic deficits" in crop insurance reform or anything else.

Furthermore, the administration—in order to enroll the greatest number of participants in this program—has made the purchase of crop insurance a requirement for participation in Federal commodity support programs or Farmers Home Administration loans. I am hesitant to place this stipulation on our farmers without reasonable assurance that our farmers are not caught up in, yet another Government-sponsored Ponzi scheme. I would hazard the guess that many others in Congress feel the same way.

In any event, I recognized the need to reform our Crop Insurance Program in the 1980's, and I recognize it today. I also recognize the need for a common sense approach that will neither place unnecessary costs on future generations nor unnecessary controls on today's farmers.

STATEMENT OF SENATOR MITCH McCONNELL

Mr. Chairman, when the Federal Crop Insurance Act of 1980 was enacted by Congress, it was looked upon to permanently replace direct Federal disaster payments as the primary risk management tool for U.S. agriculture. During the last 14 years, Congress has tried to improve and make adjustments to the Crop Insurance Program with limited success.

Yet farmers, Congress, policymakers, and taxpayers continue to be dissatisfied with the program and this has led to the enactment of ad hoc disaster assistance legislation.

The 1993 legislation marked the seventh year that ad hoc disaster payments were necessary. This has caused many to argue that the FCIC has not met the expectations that it would permanently replace direct disaster assistance.

Members of Congress and taxpayers continue to question the Crop Insurance Program, saying we can not continue to fund FCIC and annual ad hoc disaster assistance. Crop insurance has had a tremendous aggregate economic value. The program has performed for participants, regardless of whether their disaster is individual or regional in scope. In 1994, the demand for crop insurance has increased, as it generally does following disasters.

The question we need to address is how to develop a program to meet the needs of our agricultural community that will be both compassionate to our farmers and ranchers, and fair to taxpayers.

As Members of this committee, we must ask what are our policy options. The possibilities include the following:

- fine-tune the current program;
- eliminate the Crop Insurance Program altogether and replace it with a permanent disaster assistance program;
- develop a catastrophic program available for all farmers; or
- continue to subsidize premiums, but require insurance companies to assume all risk.

These are only a few of the many options possible. I am sure that during the hearing on reform of the FCIC Program, other proposals or combinations will be discussed.

The administration has launched an effort to reform the FCIC by combining the ad hoc disaster payments into an improved crop insurance program. The Department of Agriculture estimates that about 80 percent of the major crop acreage in the United States would be insured with an improved program.

With the estimated goal of 80-percent coverage in mind, I would like to raise the concerns of my farmers in Kentucky. In Kentucky, less than 20 percent of eligible acres are covered. Farmers view the policies as too expensive, lacking in adequate coverage, and fraught with administrative problems.

Maintaining a strong crop insurance program is very important to farmers. Federal premium cost-sharing encourages participation and is critical to a successful program. *I believe the program should be voluntary and that purchasing crop insurance should not be reguired for participation in farm programs. It should be an option available to all farmers* and should not be tied to conservation compliance, FmHA, deficiency payments or any other farm program. The program must be flexible to provide producers an opportunity to develop a program that meets their specific needs. The program should be available to all agricultural commodities including specialty crops.

With these thoughts in mind, I look forward to discussions on how we, as legislators, can work with the agricultural sector and the administration to overcome the hurdle of ad hoc disaster relief. Thank you Mr. Chairman.

STATEMENT OF SENATOR DAVID PRYOR

Many of you have heard me say how the farmers in Arkansas have never been big fans of crop insurance. In fact, cotton producers only insured 6 percent of Arkansas' insurable cotton acres in 1992 while rice producers had a mere 17 percent of the rice acres protected. Although the final 1993 numbers for cotton and rice are not yet in, projections have both these rates down to 4 and 15 percent of insurable acres, respectively.

Be that as it may, the Clinton administration, and particularly Secretary Espy, have gone to great lengths in addressing this problem and proposing reform of the way we provide crop insurance to this Nation's Agriculture sector. I applaud these efforts, and look forward to working with them, and this committee on these important, needed program changes. With the ever increasing budget pressures and the all too common insistence of Mother Nature to make her presence known, we must work together to find a more improved and efficient way of providing for the many uncertainties related to agriculture.

This proposal, I believe, has been well thought out with quite a bit attention given to detail. However, I still have a few questions about how this proposal was designed and how it will ultimately operate. For example: Are the basic levels enough to provide some relief? Do the higher "buy-up" levels of coverage provide a better deal than is currently available both with and without ad hoc disaster assistance? Will the $50 processing fee take legislative authority to change, or can it be changed by administratively? What is included to address the perceived problem of widespread abuse of the program?

Clearly, Mr. Chairman, we are faced with some challenging questions in looking at this reform proposal. We must try to look into the future and predict what effect changes we make here will have on the hardworking producers of food and fiber throughout our country. I want to make sure those farmers, such as most in my State, have an absolutely clear understanding of what these changes mean and how they will be implemented.

Mr. Chairman, thanks again for holding this morning's hearing and I look forward to working with you on this important subject.

STATEMENT OF SENATOR RUSSELL D. FEINGOLD

Many of us on this committee represent States which were badly affected by the wet weather and flooding of 1993. We are intimately familiar with the pain and the tragedy resulting from those circumstances.

The impacts of last year's weather are still being felt and will continue to be felt for many years. Wisconsin suffered losses on nearly 2 million acres of cropland. While disaster payments to Wisconsin farmers for the 1993 Floods have totaled well

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over $100 million, crop insurance indemnities have been less than half that amount. In 1993, only 1.3 million of Wisconsin's over 17 million acres of cropland were insured by FCIC—and that was a year in which crop insurance policy sales were high due to the disaster assistance program requirements in 1992. In fact, it seems that under the provisions of the current Crop Insurance Program, there are few incentives for participation in Wisconsin, other than the Federal mandate, and that is unfortunate. In years that haven't followed a disaster, crop insurance sales were more frequently in the range of only 600,000 acres or 3 percent of our cropland.

That is not an indictment of Wisconsin farmers but rather an indication of how badly the Crop Insurance Program needs reform and I commend Secretary Espy, Mr. Ackerman and his staff for taking the initiative to develop such a comprehensive reform proposal.

The current Crop Insurance Program simply cannot meet the unique needs of Wisconsin farmers and ad hoc disaster assistance, as it has been applied in recent years, has created, its own set of problems for farmers.

Ad hoc disaster assistance creates uncertainty with respect to the level of assistance that will be provided as well as to the timeliness of assistance delivery. It creates the need for time-consuming and resource-draining appeals as well as a high degree of frustration for both farmers and those delivering disaster assistance services. Last year, the Congress did not determine a disaster assistance payment rate for farmers until early August, for damage caused by floods that began in June. Some farmers have still not received payment for their losses of last year. This is not a criticism of Congress, USDA or farmers. These are hard working Federal employees and farmers all trying to do their jobs as best they can. These are problems inherent to ad hoc disaster assistance.

The current system also politicizes the delivery of disaster assistance to farmers. While that may make for a lot of good press releases for Members of Congress, it does not serve farmers very well. We cannot hold farmers hostage to the political constraints in the current system. It is hard to tell a farmer that he or she is not going to get those badly needed dollars for several months simply because the Congress hasn't gotten around to it yet. Congress, relative to farmers, moves slowly. Under the proposal before us, that problem is eliminated.

In addition, Federal budget constraints mandate that we act in a fiscally responsible manner with respect to disaster assistance to farmers. I don't think we can continue to provide emergency funds year after year after year for disaster assistance with little or no fiscal accountability. We need to put the true costs associated with current policy on budget. The reform proposed by USDA recognizes that problem and takes it to task.

If we have learned anything from the disastrous weather of 1993, it is that we cannot conduct business as usual.

The Federal Crop Insurance Program, in its current form, cannot replace ad hoc disaster assistance. That, of course, is one of the reasons we are here today. I am pleased with the reform proposal before us and I think that, in general, it has been pretty well received by farmers in my State who don't want a repeat of last year's frustrations.

I may have mentioned once or twice in the past that we have a few dairy farmers in my State. Most of those farmers grow insurable crops such as alfalfa hay and feed grains for use on their farms. However documentation of those crops can be problematic for crop insurance purposes under the current program and it may pose similar problems under the proposed Crop Insurance Reform Proposal. I want to be sure that this reform proposal addresses the unique needs of livestock based agricultural sectors with respect to crop insurance.

In Wisconsin, there are a lot of reasons that farmers don't purchase crop insurance. A major reason relates to the great crop diversity we have in our State. Wisconsin producers grow a wide variety of high value specialty crops ranging from strawberries to ginseng. On a large number of Wisconsin farms many different types of crops are grown making insurance by crop far too costly based on the level of risk these producers face. It appears that, to a certain extent, this would be rectified for some insurable crops under the reform proposal since farmers would pay a maximum of $100 per farmer regardless of the number of crops they insured.

I do have some concerns and questions about the treatment of specialty crops for which insurance would not be available under this proposal. In addition, I think this committee, having spent such considerable time specialty crops for which insurance would not be available under this proposal. In addition, I think this committee, having spent such considerable time and effort on the reorganization of USDA, needs to be sure that our crop insurance delivery system under this proposal does not result in duplication of services, data collection and other related functions. We must also be sure that we have eliminated the opportunities under the current program for fraud. Finally, it is extremely important to me that the terms of crop insurance policies are fair to all farmers regardless of size or type of operation.

I look forward to exploring some of these issues with Mr. Ackerman and his staff.

STATEMENT OF SENATOR THAD COCHRAN

Chairman, thank you for calling the hearing today on this important subject.

As you know, Mr. Chairman, this committee has been involved in the passage and implementation of numerous ad hoc disaster bills to meet the needs of farmers suffering from adverse weather conditions. Farmers are always at risk from the unpredictability of weather conditions. Without some form of crop insurance or disaster assistance, these risks must be born by the farmers, their lenders and their communities. Adequate disaster assistance is of vital importance to the thousands of rural communities throughout the Nation whose economies are dependent upon a healthy agriculture sector. It is my hope that we can develop a crop insurance/disaster program which is fiscally responsible while providing consistent, adequate protection for farmers when crop losses occur.

The fact that this committee has addressed numerous ad hoc disaster bills is a clear indication that the Current Crop Insurance Program does not work. I am willing to work with the administration on their proposed crop insurance reform plan. However, I worry that this plan may be less than it seems. I am concerned that the proposal promises more that it can deliver.

Crop insurance reforms have been attempted by Congress before, but it remains a poor investment for farmers. In my State, less than 20 percent of the eligible acres are enrolled in the Crop Insurance Program. Many farmers view the cost, compared to the potential benefits they could receive, as excessive.

I appreciate the efforts of the administration to develop a plan to provide our Nation's farmers with adequate protection from weather related disasters. I feel that the proposal before the committee today is a step in the right direction and merits our careful and serious consideration.

I look forward to the testimony of Mr. Ackerman, and working with this committee on this very important matter.

STATEMENT OF SENATOR MAX BAUCUS

Thank you Mr. Chairman. This is a very important event and I am pleased that Mr. Ackerman and Mr. Smith are here to detail the Crop Reform Proposal which is before us.

I speak for many of Montana's farmers when I say that it's high time we reform the Crop Insurance Program of USDA. For some time, the relative value of this program to the producer has declined while the premiums have increased. As the Federal Government proved all too willing to enact disaster legislation, producers exited the Insurance Program. We've been left with an insurance program that is an embarrassment.

Today, farmers are reluctant to purchase a risk management product which they believe offers too little benefit at an exorbitant price. Besides, they know that if we do experience a disaster, their Uncle Sam will ride in and save the day with a disaster relief package. All the benefits and none of the cost of the Insurance Program. Finally we have said, enough.

This legislation is a significant step toward reforming the program. It will replace the safety net of annual disaster programs with universal, catastrophic coverage. No more annual of budget disaster programs. Participation will be linked to other USDA farm programs. The insurance package will build on that base with affordable premiums for additional coverage. This program will accomplish these changes while achieving fiscal accountability. With the necessary baseline changes which the Conference Committee on the Budget has provided, the time to act is now.

While I still have some questions, I believe this is a first step of significant importance. I will work to address concerns about the effective premiums for farmers who have recently endured successive disasters. I will also pursue changes to enhance the production of alternative crops, perhaps by extending or enhancing coverage of these commodities. Finally, I will work to make certain that this legislation meets the needs of all farmers without creating unacceptable burdens for the taxpayers.

Mr. Chairman, let me express my appreciation for holding this hearing. I look forward to working with you to secure, passage for this important legislation.

The CHAIRMAN. Senator Heflin?

STATEMENT OF HON. HOWELL HEFLIN, A U.S. SENATOR FROM ALABAMA

Senator HEFLIN. First, let me thank Senator Leahy and Senator Lugar for their leadership, and the Department of Agriculture. I particularly appreciate the work in cooperation of Mr. Ackerman and Mr. Smith, and I think it has been a rather remarkable effort that has been successful to get the Budget Committee to come up with a sizable amount of money to be used relative to this program.

Over the past 6 years, we in the U.S. Government have spent an average of $1.6 billion a year on disaster relief programs. By using this and combining it with a crop insurance program, according to OMB we can save $750 million over a 5-year period, which is in keeping with budget-cutting and it shows that the administration is interested in trying to save money in the field of agriculture.

We have had substantial cuts; since 1986, there have been substantial cuts in agriculture, but everybody is looking to try to still say that agriculture has to bear more, and one thing is the GATT issue that has come up. So this idea of saving money is a laudable effort, and I congratulate you in that regard.

As we look at a crop insurance program, I am not sure that we shouldn't change the name to the risk management program. There have been some connotations dealing with crop insurance and disaster programs that perhaps from a public relations viewpoint, we need to give a new name to it. That is just a personal thought of myself. I am not willing to go to the wall and fight for it or that sort of thing, but I throw it out for consideration.

Now, I hope that as we get into a new risk management program that there can be what I call comprehensive coverage. Unfortunately, in the past we have had situations with disaster and other programs that an area may have suffered a disaster and an adjoining area closeby may not, and because of concepts of county units and various other units, they didn't qualify.

My farmers refer to rain always as spotty. I keep hearing the words, "the rain was spotty." I didn't get any rain, but my neighbor down the road got some rain, and you hear this word "spotty" always. You know, I would really think that you might have within an area of 5 miles a farm that really suffers a disaster and another one that is 5 miles away didn't. So I hope that the coverage can be comprehensive relative to that.

I have some concerns relative to the proposal, and I actually have introduced a bill of my own which has a few differences from the bill that is introduced. Number 1 is that I feel like we ought to have a situation by which you could judge crop yields from a 4-year basis, and you can drop the high and the low or you could make a choice where you could have an average or a median in regard to that.

My farmers also are interested in what they call their cost of production package, and I think that this may be similar to what Senator Daschle mentioned when he said dollar coverage relative to that. That would be an alternative that could be within the package. Some feel like that if they can have crop insurance where the premiums would be low enough which can cover their cost of production maybe they can survive for 1 year, as opposed to other types of insurance.

There are other problems that are confronting us. There are some smaller crops, for example, that are not able to use a 4-year average and they are forced to use a 10-year average production history. This causes them great concerns to be able to have to figure this. I would hope that we could have some uniformity relative to all crops that would be covered under a 4-year average rather than some that would have to go under an average production history of something like 10 years.

There are some other problems as we go along pertaining to this. One is the transfer of records from the ASCS office to the Federal Crop Insurance office. We have some cases in which it takes up to 3 years for a farmer's yields to be transferred from the ASCS office to the Crop Insurance office, and that is a problem we are confronted with and as we get into more automation, computers and other things, it would appear to me that these figures could be expedited.

I think the Crop Insurance Proposal here that the administration has come up with will also be a tool to eliminate some fraud and abuse that has occurred, too, relative to it. I think that you have got some provisions that help a great deal in regard to this.

I congratulate you on the way we are going forward. I think there are some adjustments we ought to make on the thing, but overall it is a very good program and it is designed to save money, and nobody ought to complain about that. I believe that as we move forward that this can be something that provides more certainty.

As Senator Conrad mentioned about it, we have had several disasters where it was perhaps localized in one or two States and it was impossible to get a disaster bill. If a disaster occurred in the district of the Chairman of the Appropriations Subcommittee on Agriculture in the House, we usually got a crop disaster bill, but if it occurred in somebody else's district it was somewhat difficult to be able to get it, unless it is widespread. If it is widespread, then there is general acknowledgement that there is a disaster.

There are things that we can do and we ought to improve it because if we come up with a bill, it is going to, I think, be a bill that will be lasting for a while. Since now we have got some money to do it and things are moving, the movement is now, the time is right, and I think we ought to adopt a full, comprehensive bill instead of a spotty bill.

The CHAIRMAN. We will have a special section on spotting.

[Laughter.]

The CHAIRMAN. That is a fascinating idea. My State is too small to do that. If it rains anywhere in the State, it rains everywhere in the State.

Senator HEFLIN. That is because you have got a small State.

The CHAIRMAN. Yes, just a small one.

Senator HEFLIN. Well, it snows.

The CHAIRMAN. Well, not too much. I mean, you know, we had less than 140 inches last winter.

[Laughter.]

The CHAIRMAN. On the other hand, some of it came down kind of heavy. I remember one night we had 12 or 13 inches that night and it was so bad, the schools opened an half-hour late.

[Laughter.]

The CHAIRMAN. They, of course, replaced the school board so that wouldn't happen again.

[Laughter.]

The CHAIRMAN. We have a different method of snow removal. You understand the method of snow removal here in Washington. It is a very religious experience. People take the attitude that if God put it there, God can take it away because, God knows, neither the city nor the surrounding counties are going to, and never have. The only method of snow removal that works here is several warm days.

I want to join also with the others who applaud the work that Ken Ackerman has done, and I was not surprised after he left this committee that he would do so well. Ken, I want to just note personally for the record how much I appreciate the way you and your office responded to questions not only from me, but from all Members of this committee.

It is now your show. You get a chance to tell us what you want to do.

STATEMENT OF DALLAS R. SMITH, DEPUTY UNDER SECRETARY, INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.; AND KENNETH D. ACKERMAN, MANAGER, FEDERAL CROP INSURANCE CORPORATION, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC.

Mr. SMITH. Thank you, Mr. Chairman, Members of the committee. I am Dallas Smith, Deputy Under Secretary, International Affairs and Commodity Programs.

The CHAIRMAN. Also no stranger to this committee and we are delighted to have you here, and I would note again another office that has always responded to questions from this committee and I do appreciate it.

Go ahead, Mr. Smith.

Mr. SMITH. Thank you. We appreciate hearing your comments in support and concerns on our proposal. We are also pleased that this committee is holding this hearing today to discuss the Crop Insurance Reform bill. Mr. Ken Ackerman, as has been noted, Manager of the Federal Crop Insurance Corporation, is here with me to discuss the administration's newly proposed crop insurance reform program.

As you know, on March 2, 1994, Secretary Espy announced details of the administration's proposal to reform the Crop Insurance Program and transmitted draft legislation to Congress. Last week, the Senate and House conferees agreed with the Secretary's initial request of a $1 billion baseline adjustment to the budget. Now is the time to work together to support this proposal, which enjoys broad support in the agricultural community, and get it enacted in time to be implemented for the 1995 Crop Year.

Mr. Chairman, I would like to take this opportunity also to acknowledge and thank the Members of the Senate Committee on Agriculture, Nutrition, and Forestry who, with their counterparts in the House, have introduced this proposal into the Senate and the House. It is our belief that this proposal is a step in the right direction to reforming crop insurance. Mr. Chairman, we also have a proposal that represents the best advice we could get from all parties involved. With this committee's support, I believe this crop insurance reform has a solid chance of being fully implemented.

Mr. Chairman, if it is agreeable with you at this time, I would now like to ask Ken Ackerman to summarize the provisions of the legislation.

The CHAIRMAN. Thank you, Mr. Smith.

Mr. Ackerman?

Mr. ACKERMAN. Thank you. I want to thank the committee and thank you, Mr. Chairman. It is very much a personal honor for me to be attending a hearing in this room sitting at this end of the table.

I also want to thank you for holding this hearing very quickly. As many Senators around the table have noted, it is well known that our prospects for passing crop insurance reform legislation are very dependent, or have been very dependent on our obtaining a baseline adjustment in the budget resolution. We very much appreciate the fact that the budget conferees have included that full baseline adjustment. I understand that the final vote on that, the final decision on that budget resolution will be in the Senate, I believe, today, so we are very hopeful that that will be accomplished.

That done, we feel, as Senator Heflin mentioned, that now is the time that we have the momentum to take action. We would like to move forward and see this bill adopted in time to be implemented for the 1995 Crop Year. That is an ambitious timetable, but we think it is a workable timetable. To do that, though, we need for you to know that because of the complexity, the difficulty involved, the simple logistics of putting this plan into effect, we would need to have a bill completed by about early July, about the beginning of July, in order to have this program up and running for the 1995 Crop Year. That is what we would like to do and at this point we are very much prepared to clear our decks, clear our desks, and roll up our sleeves and work with you to try to get this done.

What I will do is very briefly walk you through what we have proposed and why we have proposed it. For crop insurance, basically we find ourselves on the horns of a dilemma of two competing forces which are shaping our program. They can be summarized as more risk and less money.

On one side, as Senator Conrad mentioned earlier, over the past half dozen years we have seen literally an unprecedented parade of disasters affecting American agriculture, starting with the 1988 Drought of the Century; the 1989 Drought of the Century; the 1992 Hurricane of the Century—*Hurricane Andrew*; the 1993 Flood of the Half-millennium. As of yesterday, I understand there was a 7-foot hail storm in Texas.

The CHAIRMAN. What?

Mr. ACKERMAN. 7 feet of hail in some parts of Texas.
The CHAIRMAN. How the heck do you get 7 feet of hail?
Senator KERREY. Only a Texan would claim that.

[Laughter.]

The CHAIRMAN. That is the highest elevation in Texas now.

[Laughter.]

Mr. ACKERMAN. Apparently, there were pictures on CNN this morning of 7 feet of hail in some parts of Texas.

At any rate, the parade of disasters has put into the forefront the need for meaningful risk management tools. On the other side, as everyone knows, we are facing an unprecedented deficit crisis at all levels of government, starting in Washington and spreading to State and local governments as well.

We have a multi-trillion-dollar Federal deficit. Deficit reduction is one of the foremost priorities in our country today, and at virtually every step of the way agriculture has been in the forefront as being a target for cuts. In last year's reconciliation bill, agriculture absorbed $3 billion of cuts, including $500 million in crop insurance alone. This type of budget pressure is going to continue to shade all discussions of this program.

The problems with crop insurance very much came to the fore and were very much dramatized by last summer's flood in the Midwest. With this committee, I don't have to walk through the magnitude of the flood. Everyone here knows how bad it was. It did, however, expose a number of problems in the Crop Insurance Program. Some of them were very specific—the lack of preventive planting coverage, for instance, in many areas; the fact that our price selection system is overly rigid; the fact that in many areas we simply built our buildings too near the water.

In Des Moines, Iowa, for instance, our area claims office in Des Moines is on the fifth floor of an office building about a quarter of a mile from the river. Normally, you would think that would be safe from a flood. This year, that office got flooded out. The basement of that building a quarter of a mile from the river flooded. We had to evacuate for several weeks. That experience is obviously mild next to what was experienced by farmers in that State and in many States throughout that region, but clearly it exposed some of the problems in our program.

The biggest problem that came out of this experience, however, is the fact that over the past 10 years we have had developed in this country two redundant programs, two parallel programs trying to do the same thing and unfortunately working at cross purposes in the end.

While we have spent upwards toward $900 million per year for Federal crop insurance, for various subsidies, when disasters have struck crop insurance has simply not been an adequate safety net. The participation level has been too low. As a result, literally, in 8 out of the last 8 years we have had to provide ad hoc disaster payments to farmers.

As the chart over here on the left side shows, the size of these payments varies dramatically year by year. Yet, we have had to provide these payments in 8 out of the last 8 years. The problem is that the dependence on disaster programs has created a level of uncertainty which is bad for farmers and bad for taxpayers at the same time.

From the farmer's point of view—several Senators have already made this point—the main problem is that if you do not have crop insurance and if you are dependent on disaster aid, you simply have no idea at the beginning of the year whether you are going to get protection or not or what that protection is going to be.

If you suffer a loss, as many farmers already have in 1994, you have to worry whether your loss is going to be repeated by farmers across your State and 10 other States and 20 other States to see whether disaster aid is going to arrive or not. In some years, disaster aid is fully funded; in other years, it is 50-percent funded. In a future year, it could be 30-percent funded or 80-percent funded. There is no certainty, and if you are trying to run your farm as a business, you cannot do it.

From the taxpayer's point of view, you have the same uncertainty. As Senator Lugar pointed out, ad hoc disaster aid, whether it is for agriculture or for anything else, is not subject to any of the fiscal discipline that applies to other areas of government spending. It is not subject to the pay-as-you-go rules. It does not have to be offset with spending cuts.

As a result, while over the past 10 years we have spent an average on crop disaster assistance of $1 billion a year, over the past 6 years that average has risen to over $1.5 billion a year. As Senator Heflin said, it is now roughly $1.6 billion for the last 6 years. With each succeeding disaster bill, whether it is for agriculture or for a California earthquake, the level of taxpayer resistance gets higher and higher and higher. So, that is the uncertainty from the taxpayer point of view.

What USDA is going to do about it is this: On March 2, Secretary Espy announced a wide-ranging set of changes in crop insurance. These changes grew very much out of the experience of last summer's flood. Secretary Espy and President Clinton spent quite a lot of time in the Midwest talking to farmers and, frankly, they heard an earful. They heard a lot of problems, a lot of concerns about these programs.

Basically, our program goes in three directions. We want to make the program more fiscally sound, we want to make it more farmer-friendly, and we want to resolve this problem with disaster payments. That is the main theme of the legislation before the committee today. What the goal of the legislation is is very simple. We are proposing to merge crop insurance and disaster aid into a single, unified on-budget program.

As Senator Kerrey said, we are not creating a new program. We are not even asking for new money. We are simply proposing to merge these two current programs, at approximately their current funding levels, into a single, unified on-budget program. To do this takes two steps.

First, we are proposing to create legal barriers, parliamentary hurdles, against future ad hoc disaster programs. We discussed this in the hearing several weeks ago on disaster aid. Basically, we would be requiring that any crop disaster bill in the future be treated as regular PAYGO spending, that it not be given emergency status under the Budget Act. This means that it has to be paid for with offsetting budget cuts. We view that as a very significant parliamentary hurdle against a disaster bill.

At the same time, we are proposing to take the money for that program and direct it toward an expanded crop insurance program. The way we would do that is outlined in the written statement, so I will walk through this very, very quickly. We would create a new level of catastrophic coverage made available to all farmers of insured crops. The Government would pay the premium. It is like a rainy day fund. The farmer would pay a processing fee of $50 per crop, per county, with a cap of $100 per county. The idea is to make it very accessible, very economical, so that the largest number of farmers can get their hands on it.

The level of coverage available would be similar to what farmers have gotten under disaster bills the past several years. The testimony contains a number of charts making this comparison in a very detailed way.

We recognize that this 50/60 coverage, this catastrophic coverage, is very low. It is intended to replace disaster programs. Most farmers should get and are encouraged to get higher levels of coverage, and so the second key point is that we are creating financial incentives for those higher levels of coverage.

The third point is that we provide mandatory linkage. I know this is a controversial issue, but we think it is very important. We are requiring that for any farmer to get a Farmer's Home loan or participate in a USDA commodity program, they must have acquired at least the catastrophic level of coverage. The effect of this is seen in the chart on the left which shows the effect on participation of the mandatory linkage.

Basically, crop insurance in 1993 had a participation rate of about 33 percent of eligible acres. With mandatory linkage, we expect that that total participation rate will rise to about 80 percent. It is a very dramatic increase, and the purpose of it is to make sure that in a future disaster the bulk of farmers are, in fact, covered.

The CHAIRMAN. From the approximately 40-percent participation that it has been in the past, how is it going to go to the 80-percent rate of participation? That is, how will your proposed increase participation in the Crop Insurance Programs?

Mr. ACKERMAN. The reason we would go to the 80 is because we would now have a mandatory linkage. In order, for instance, for a farmer to qualify for a wheat deficiency payment or a corn deficiency payment, they must have acquired at least the catastrophic level of coverage. The simple math of how many people are in these programs and how many people get Farmer's Home loans are what drives those numbers.

The CHAIRMAN. If you have most producers get into catastrophic coverage, are you going to have to maintain a linkage between crop insurance and other USDA program benefits, a mandatory linkage?

Mr. ACKERMAN. We think we will and, Senator, the reason is this: Our main concern behind the mandatory linkage is that we do not want to go through the process of reforming crop insurance, creating these legal barriers against disaster bills, and then 2 years down the road have a major drought, a major flood, and find out that a lot of farmers, even for good reasons, simply have not acquired the coverage.

Whether it is a matter of simple inertia, whether they are simply skeptical of a new government program—for whatever reason, if they don't have the coverage, then they either will not be protected or it will create the very kinds of pressures that could unravel this program.

The CHAIRMAN. Well, they know the coverage that we provided in 1991 and 1992 through disaster programs. What would you say this does for them? I mean, suppose they had had this instead of the Disaster Programs. Do they come out better or worse?

Mr. ACKERMAN. If they have not had crop insurance and they were relying on the Disaster Programs, in virtually every case they will do better than they did in 1991 and 1992. In most cases, they will come close to what they did in 1993.

The CHAIRMAN. The 1993 Disaster Program was a more generous one. 1993 and 1988 were more generous disaster programs anyway, were they not?

Mr. ACKERMAN. That is correct.

Senator HEFLIN. Might I ask, is there a possibility of trying to have some method which almost forces—maybe I don't want to use that word—adoption of that coverage? For example, on gasoline off-the-highway use, there are various forms that have to be used. Could there be a connection between the use of those forms and the refunds in connection with this coverage? I just throw that out as a thought that just hit my mind. I hadn't really thought about it, but if there could be some type of connection which might bring about more coverage. I don't know whether I am for it or against it.

[Laughter.]

Senator HEFLIN. I mean, I just thought about some method of collection. I reckon that deals with the IRS, though, in between the departments and whether it can be connected or not.

Mr. ACKERMAN. Senator Heflin, if this is setup so that a farmer signs up for catastrophic coverage and it is linked to a deficiency payment in the future, or linked to a loan, the idea of offsetting the price of one against the other is certainly something we could look at if that would make it more administratively feasible.

But the idea was we felt it was important for farmers to be in the program and that there be at least a meaningful processing fee so that it is not something that you are getting for nothing. It is an insurance policy that you are putting up money for. On the other hand, if there are ways to make this more administratively efficient either by tying it to deficiency payments or loans, we are certainly open to ideas.

Senator DASCHLE. What about tying it to their eligibility for disaster payments? I mean, they would simply give up any protection—they could sign up for the farm program, but they would have the option of not having that coverage and they would sign to that effect.

Senator KERREY. They would sign a waiver.

Senator DASCHLE. They would sign a waiver. Is that something you looked at?

Mr. ACKERMAN. It is something we looked at and, frankly, it was something that we weren't very comfortable with, and the reason is that it is a lot easier to sign a waiver than it is to sign a $50 check. The concern is that if a larger number of farmers took that option and simply signed away their rights to a disaster payment and, in fact, 2 years down the road a disaster occurred, there will be one of two outcomes. Either those farmers will, in fact, be unprotected and they will be very concerned. They will say they didn't understand, they didn't realize. There is, in fact, a history of disaster payments aid out of the last 8 years and many farmers will probably be very skeptical if they are simply told to sign this piece of paper and disaster aid will vanish.

Or else you will have the very types of political pressure to undo this program, and if we go through the process of spending this sum of money and creating these new parliamentary hurdles to disaster payments and then violate it in 3 years, then I think we really will have taken two steps backwards.

The CHAIRMAN. You also have the problem, as we start getting more and more budget crunches here, that there is going to be less and less support for disaster payments if everybody knows there could have been an alternative, whether disaster insurance or otherwise. Some of the problems that result with the disaster programs like we saw a week or so ago in oversight hearings on disaster progress and some of the problems that result with the Disaster Programs versus an in-place, carefully monitored, setup insurance program—are going to turn a lot of people off, too.

I hope that the word is going out that it is not wise for people to say we will just put off doing any reform of crop insurance because the Congress will come through with disaster payments each year, as we have the past several years, at the rate of around $1 billion, because I don't see that continuing to happen.

There will be some extraordinary disasters; there always are in this country, but they are going to have to be truly extraordinary. I think that certainly the feelings I am getting from hearing from other Members both from farm States and nonfarm States is that there is a real concern about continuing disaster relief the way we are going.

So, I hope that if we do something, everybody understands we are in it for the long term. It is not going to be a case of going back to disaster payments. In fact, one of the things we have been able to do is get the ability—with the Department's strong help—from CBO to be able to offset some of the money that we normally put into disaster bills into setting this Crop Insurance Program up.

Incidentally, one thought that occurs to me—and, Mr. Smith, you may be the best one to talk about this. We have talked about the reorganization of the Department. The Federal Crop Insurance Corporation in that reorganization was moved from Small Community and Rural Development to the Farm Service Agency. What does that do in the way we handle these disaster programs?

Mr. SMITH. Mr. Chairman, we feel that the reorganizational structure that we are looking at now in the Farm Service Agency will support the delivery of this risk management effort through the new system. In fact, in our organizational structure we see an identity for risk management at the deputy administrator level in the Farm Service Agency.

At the local level, the county level, by going to changes in technology, the Infoshare system, we see the Farm Service Agency consolidated function supporting the data needs of the risk management aspects of our program. So we believe the reorganization will reinforce and support the delivery of this service to the farmers.

The CHAIRMAN. In other words, the Farm Service Agency then uses the ASCS to do that?

Mr. SMITH. Well, the Farm Service Agency will incorporate the missions of Federal crop insurance, ASCS and farm credit from FmHA. In doing so, we are planning to bring the Federal Crop Insurance Corporation under the FSA and have it aligned as one of the deputy administrator areas so it will receive the same degree of attention in that organizational structure as it currently does.

The CHAIRMAN. Are FCIC and ASCS already talking about what happens under the new structure—I mean, we could do it on a chart here, but the reality is you have people and systems and programs that are going to have to do the actual job. I mean, are they already looking at that?

Mr. SMITH. Yes, Sir. We have common areas of support. For example, in the administrative area there will be common areas of support, but even under our current structure with ASCS and Federal Crop Insurance as separate agencies, we have a large degree of cooperation in how those programs are delivered and how data is shared.

The CHAIRMAN. Senator Lugar?

Senator LUGAR. I just wanted to ask about the whole actuarial problem that comes with crop insurance. It is something that you have had to face as experts. In private insurance markets, for fire insurance, for example, the insurance companies pool the risk by insuring a large number of people against a particular hazard, frequently over a large area, maybe over the whole country with a national group of people. This pooling allows the insurance company to manage underwriting risk because the probability of fire in one person's house is statistically independent of the probability in another person's house.

Now, the dilemma with crop insurance in the past has been that adverse weather often affects thousands of farmers simultaneously who are right together in critical mass, so that as opposed to the actuarial problems of a fire occurring somewhere in America right now, the crop thing is often very concentrated and actuarily in a very different situation.

Just as a matter of theory, how can you construct a program that really meets this devastating concentration?

Mr. ACKERMAN. Senator Lugar, it is a very interesting question and it goes to the core of why there is a Federal crop insurance program rather than crop insurance being handled solely by the private sector. You are exactly right. If you take a year like 1993 or 1988, a year like that could have wiped out a totally private sector-based system.

Even with a government-supported system, a year like 1993 has put a very serious strain on the private sector participants in Federal crop insurance because we have a system of risk sharing, which has had an increasing burden on the private sector in the past few years. So this year the private sector took a very substantial hit because of the losses.

We have to construct our program over the long haul. When we set rates on crop insurance, we use data going back 20 years to get meaningful averages. We try to aim for a 1.1 loss ratio, or we need to under the Reconciliation Act, based on an average over several years. That is the only way we can make the program work for that very reason.

Senator LUGAR. In the legislation, however, FCIC has an open line to the Treasury in the event that it didn't work out that way; in other words, there is an overwhelming situation.

Mr. ACKERMAN. If you have a year like 1993 with a very high loss ratio, yes, the indemnities are considered mandatory spending. The point I would make, though, is that we are also at the same time under a statutory mandate under the reconciliation bill to have a 1.1 average loss ratio. So if we have a very big loss in 1 year, we have to design our program so that the losses in other years will be less, so that over time we would have a 1.1 loss ratio.

Senator LUGAR. So that if you had a spike of $5 billion more in a particular year, which adds $5 billion to the overall deficit in that year, then the next year you have to begin reconstructing so that premiums then rise for the next 10 years. How do you space out the incidence of that spike of loss?

Mr. ACKERMAN. Well, for instance, 1993 was a very large loss. It does go into our rating formulas. Our rating formulas use 20 years of data in order to factor it in. We are also taking a number of other steps to get our loss ratio down generally. The nonstandard classification system is one. The tighter rules on actual production history is another.

Senator LUGAR. I raise these questions because it appears to me that we are opening up an entitlement program of some significance. Now, you make the point correctly that even if you have an unlimited entitlement and a drain on the Treasury, you try to recapture this over several more years of the program through increased premiums. However, at the same time, for the moment, we don't have the problem and the Congress could decide on no disaster program at all, and we know the limits, at least, of the subsidies for the Crop Insurance situation.

Mr. ACKERMAN. I would respond this way. There are two responses. One is that currently crop insurance indemnities are mandatory spending today. This year, we did go up to $1.6 billion in our payments. Also, this year there was a disaster program, bringing the total to close to $4 billion if you combine disaster with crop insurance.

Senator LUGAR. Between the two programs, $4 billion?

Mr. ACKERMAN. Close to that, yes.

Senator LUGAR. And you are hoping now in this program to limit it to what?

Mr. ACKERMAN. In our program, you would have—under this proposal, you would have one program. You would be combining the two together and you would have one program with one set of rules.

Senator LUGAR. But what budget impact?

Mr. ACKERMAN. As to exactly what it would have been in 1993 under the new program, we have run some numbers on that. Generally, it depends on what you assume on the participation at the higher levels. It could have been somewhat less if fewer people bought the buy-ups. If a lot of people bought the buy-ups, it would have been close to the cost this year.

Senator LUGAR. Would it have been $4 billion?

Mr. ACKERMAN. I think the exact number—just to be precise, crop insurance was about $1.65 billion and disaster aid is about $2.1 billion for this year. There are ASCS people in the room who will correct me if I am wrong—$2.3 on disaster aid and $1.65——

Senator LUGAR. But I was trying to say, if we had this program, if we passed this law, what would it have been, the same?

Mr. ACKERMAN. Again, depending on how many people bought up to higher levels of coverage, if this had happened in one of the early years under the reform proposal, it would have been somewhat less. If it were in a year when a lot of people bought buy-up coverage, it would have approached the current year.

Senator LUGAR. In my opening statement, my analysis was that by 1997, this new program does cost more than the average, and clearly by 1999. Is that your analysis, too?

Mr. ACKERMAN. Our projections show that by 1999, by the fifth year out, it is about the same as the current program. It is a little bit more. I would only say that these projections about what is going to happen 5, 6, 7, or 8 years out in the future are very much based on projections of what the participation rate will be, and particularly how many people are going to buy up to higher levels of coverage. That is something we are making good-faith projections on, but it is something we don't really know.

Senator DASCHLE. Can I just ask for clarification? Does that include net costs or gross costs? I would think with higher participation would come much higher premiums, which would discount the overall cost of the program.

Mr. ACKERMAN. The numbers I was throwing out were simply the total amount of payments. It is gross, not net.

Senator DASCHLE. So in answer to Senator Lugar's question, what would the net be? Do you know, Ken?

Mr. ACKERMAN. Well, the comparison between the new program and the current program would be—I would have to get you exact numbers on that, but that comparison—the more people who buy up to higher levels of coverage, then the more expensive the new program is. If approximately the same number of people buy higher levels of coverage as today, then the new program would cost less than the status quo.

Senator LUGAR. Let me just pursue this specific year we are in. As I understand it, even with the $1 billion of baseline adjustments that has been in the budget we are about to vote on, CBO says the administration's bill raise direct spending by $711 million in budget authority and $362 million in outlays over 5 years. How do you propose to change the draft bill that is in front of us to make it budget-neutral?

Mr. ACKERMAN. Again, we would have to sit down with CBO and see exactly what their assumptions are that underlie those estimates.

Senator LUGAR. On the other hand, do you agree that you have to make it budget-neutral by the time we have a markup of some sort?

Mr. ACKERMAN. We agree we have to work with you on this. All I can say is that these budget estimates are very much based on the assumptions that you make on participation and on other factors, and what we would like to do is to sit down with you and the committee staff and with CBO and go through these budget estimates to make sure that all of our numbers match up.

Senator LUGAR. I think that would be very important. The Chairman has returned. I would suggest that probably prior to the markup—I understand the timetable that you have and that is common sense in regard to the wheat signup, but it seems to me that all of us would be a great deal more comfortable if we have some informal sessions of staff and/or Senators to begin to wrestle with the money and with the assumptions that are here.

If we are having some difficulty—and I am and that is why I am asking these questions—Colleagues who are not versed in crop insurance on the floor may have even more if we are not able to guide this. I am, I suppose, wrestling with the question of whether we are creating something here which almost by its nature is bound to be an entitlement that is substantially more expensive and beyond budget control over the years.

For example, you postulate that 80 percent of farmers are likely to sign up because 80 percent participate, and that may be true. I was interested in that figure because it has been declining in corn for a while. Maybe it will come up, given the need, but that is an interesting set of circumstances. As farmers become larger, for example, and have larger farms, many are going independently of the Federal Signup Programs.

Now, is your suggestion that because of the Crop Insurance they may come back into the programs, or the other way? I am not certain whether we are going to get to 80 percent or not, or maybe crop insurance gets you to that point. Now, if you do go back and you are a large farmer, maybe the large farmer would say, okay, I do want to do into this seriously; you have got a subsidized Federal program and therefore I am going to buy a lot more crop insurance, I am going to go beyond 50 percent or 65, or what have you.

Now, under those circumstances, you point out these larger farmers come in, they cover themselves more, and the possibilities then actuarily are that the program is going to cost more in the process. Now, most farmers haven't wrestled with this yet, but we are going to have to make some assumptions as to how they will come out because there is no stopper with this program if you have got to make the outlays. It is an entitlement.

The budget people who may have wrestled pretty hard to get $1 billion a year for the next 5 years—and that has been a major item in the conference—may be startled to find the implications of this. Now, you may be able to explain all this to us and to them, but I am just suggesting that we need to sort of wrestle with this before we come to a markup.

Mr. ACKERMAN. We would be very anxious to sit down and do that. I would make one point.

Senator KERREY. Can you do that before June 8?

Mr. ACKERMAN. Certainly. We will make very effort to be here. I understand that we may be meeting with the committee staff as early as this Friday to start talking through some of these numbers.

Senator LUGAR. I don't know whether other Members share any of these questions and I don't mean to be just contrary about it, but I think there are some very large sums involved over a long period of time. Long after we have all passed beyond this situation, somebody is going to have to wrestle with this program.

So, much the way we did the credit thing before—you know, we had a number of sessions sort of going through that section, and I think we did that one right. This, I think, has serious implications in ag policy and probably needs to be handled carefully.

Senator KERREY. I certainly would agree with your concern. We don't want to start either a mandatory program that is going to result in much larger budget exposure, nor do we want, it seems to me, to lose sight of the connection between this issue and the effort to link the requirement to purchase with participation in the farm programs.

The idea here is to increase participation in crop insurance while making it more actuarily sound than it is right now. I presume that is what the proposal does, but I think what Senator Lugar is asking for is a check of that presumption because if we launch into something and that presumption turns out to be unsound, then we are going to be standing here a couple of years from now with substantial budget exposure and a substantial amount of explaining to do to Colleagues who trusted our capacity to do a proper analysis.

Senator DASCHLE. I am still curious as to how you conclude that greater participation means greater cost. It would seem to me that greater participation means higher premiums, more premiums, compared to no premiums today with disaster payments, which would mean therefore greater offsetting revenue for the increased outlay in protection. Where is my logic failing me?

Mr. ACKERMAN. The greater cost that exists at these higher levels has to do with the fact that the subsidy rates are linked to premiums. If you get a higher level of coverage, the bill contains targeted incentives for buy-ups. If you get a catastrophic level of coverage, this 50/60 level, the Government pays that premium at 50/60.

Senator DASCHLE. Yet, that is what it is doing today. I mean, disaster payments are doing that.

Mr. ACKERMAN. Correct.

Senator DASCHLE. So that would be sort of a neutral balance.

Mr. ACKERMAN. That is correct. That would be balanced, but if you get a higher level of coverage, a 75-percent yield or a 65-percent yield, the proposal gives you a higher level of subsidy than that catastrophic as a way to encourage you to buy a higher level of coverage. Also, at the higher level there is an expense reimbursement to the companies linked to the rate of premium, and that is why as more farmers get higher levels of coverage the subsidy levels go up.

Senator DASCHLE. Does that assume that you need it every year?

Mr. ACKERMAN. No. Actually, it is not dependent on whether there is a claim every year. It is simply based on the amount of

92-780 O - 95 - 3

premium charged. The one effect of having more farmers in and more farmers paying premium is that, over time, that could lower the cost to the farmer because the more farmers in the program and the more farmers participating, generally that would result in a better loss history and that would result in better premiums to farmers.

Senator KERREY. One thing that is going to give us an opportunity to examine this closer is the hearing that I think Senator Pryor is holding next Thursday. The insurance industry will be there, commodity groups will be there, and so on. I think it is very important for us to look, at that moment, at this thing from the standpoint raised by Senator Lugar.

The thing that I fear is that you put in place something that would end up basically creating incentives to do precisely what we don't want to do, and that is to have producers basically farming for the Crop Insurance Program.

Senator CONRAD. To the Senator from Nebraska, have we found a new order?

Senator KERREY. Yes, it is a new world order.

Senator CONRAD. I see.

The CHAIRMAN. In the current world order, Senator Conrad.

Senator CONRAD. I like the old world order.

Mr. Ackerman, there is a part of this that concerns me a great deal and I want to make sure it doesn't escape the attention of my colleagues, and that is my understanding is with the Appropriations Act for fiscal 1995, under that provision, in counties with loss ratios of greater than 1.1 in which for at least 70 percent of the years in which crop insurance was offered individual farmers who are above that 1.1 will have their premiums or their coverage adjusted to meet 1.1. Is that correct?

Mr. ACKERMAN. Not exactly.

Senator CONRAD. Say it in the way that you would to give a proper characterization.

Mr. ACKERMAN. Under the Appropriations Act, certain counties are identified as high-risk counties. If they have an average loss ratio of greater than 1.1 more than 7 out of 10 years, then within those counties a farmer with a disproportionate loss record—that could be a loss ratio of 3 or 4; that trigger number varies somewhat. Those farmers with disproportionate loss records have their rates adjusted to 1.1.

Senator CONRAD. To what?

Mr. ACKERMAN. To the 1.1 level. Those particular farmers with very high loss ratios, as you say, do, in fact, experience a very sharp rate increase.

Senator CONRAD. Well, I must say that is a real concern. I mean, I represent a State that has had three of the worst disasters since 1988 in our history, and obviously those people are going to have loss ratios above 1.1 percent, or at least some considerable number of them are. Then if, all of a sudden, they are going to be expected to go from whatever that loss ratio has been—let us say it is 2.5—to 1.1, they are going to be mighty surprised about this new plan that is to be an improvement, aren't they?

Mr. ACKERMAN. Well, it is in the statute. It is something that we are required to carry out.

Senator CONRAD. I understand that. I am just talking about where the rubber meets the road is out there when we are out going from town to town at a community forum and somebody gets a notification that their premium is being jacked up because they have been the victim of a lot of disasters recently. They are going to say to us, what are you guys doing down there; we have had a series of natural disasters and now you guys have created a man-made one down there in Washington.

Mr. ACKERMAN. If I may, this program is a complicated one and there are two parts to it. There is the Appropriations Act language which requires us to implement this program for high-risk counties, plus we have a broader program which covers major crops in other counties. The adjustments are not as sharp.

The reason for this NSC system—the NonStandard Classification system—is that studies over the years have shown that a very, very small percent of customers, of producers, have received a very disproportionate share of claims under crop insurance. The goal of this program was not simply to go to an area where there have been high losses because of droughts or storms or whatever, but within an area to look for those farmers who have had very high loss ratios compared to all of their neighbors.

Senator CONRAD. Yes, but, Mr. Ackerman, if you are a farmer who has had a disproportionate share of natural disasters, you would expect that you would have a disproportionate loss ratio. I mean, the idea of insurance of any kind is to cover you against a disaster and if you have, through no fault of your own, been the victim of a series of disasters and then you go to them and say, well, because you have had a disproportionate share of natural disasters you are going to get hit on your insurance rates—I just say to you if I were the recipient of that kind of government policy, I wouldn't be very happy.

What kind of premium increases could they expect to get as a percentage?

Mr. ACKERMAN. In some of these cases, they have been very sharp increases—50 percent, sometimes more—very sharp increases.

Senator CONRAD. Could you get us those counties and the number of people affected?

Mr. ACKERMAN. Yes. I can get you a list very specifically of how many farmers in specific counties. We can do that.

Senator CONRAD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Grassley?

Senator GRASSLEY. Thank you, Mr. Chairman.

My first question deals with something that Senator Lugar alluded to in his opening statement, and I think I want to characterize my question this way: If we have a problem selling this concept—and I suppose the more it gets to a point of our making a decision, the more we will have to defend it. I would like to be able to put as much in real world terms, the way the farmers would be asking about it, and how it might impact on them.

So, along that line, I was wondering if you have given any thought to if, whether or not, this program had been in effect, for instance, in the 1988 Drought or the 1993 Flood—and I suppose, I think, particularly of the 1993 Flood because it is so gigantic and it is so near term, at least—how the farmer would have benefitted if this had been in place versus what we had in place, and what the costs would be to the Government as a result of that. Have you given that any thought?

Mr. ACKERMAN. Well, let me walk you through a couple of scenarios. For one thing, if you had a situation like the 1993 Flood, farmers would have known at the beginning of the year that, in fact, there would be protection. They would not have had to wait to see that there would be a flood affecting 9 or 10 major States, plus a drought in the Southeast, to know that Congress would, in fact, pass a disaster bill and that the Senate would, in fact, be successful in raising the level from 50 percent to 100 percent. They would have known at the beginning what their coverage was without having to wait through that process.

Second, the exact comparison of how much they would have received, one program versus the other——

Senator GRASSLEY. This is the pocketbook issue that I am most concerned about.

Mr. ACKERMAN. 1993 was a particularly generous disaster bill. It was fully funded, as compared to 1991 and 1992. Generally, what you would get under the 50/60 Crop Insurance Program for most farmers is close to what you would have gotten under the 1993 version, although with some variation.

The Disaster Programs are based on program yields. The Crop Insurance is based on individual yields. So those farmers who have the best individual yields would do the best under the Crop Insurance alternative. We have provided some very specific comparisons for corn, for wheat, and for soybeans on exactly how they stack up. In virtually every case, a producer does significantly better under 50/60 than they would have done under the 1992 Disaster bill. Generally, they come pretty close to how they did in 1993, though with some variation. There are some crops which fall closer to the middle between the two. As I said, there is this variation based on individual yield.

The second scenario would be for a farmer who currently had crop insurance and who was getting crop insurance plus a disaster payment at the same time. For them, there would only be one program. They would only get the Crop Insurance payment. However, they could get higher levels of crop insurance and enjoy these targeted incentives for buy-ups that we were discussing a minute ago, if they choose.

There will probably, we expect, be private sector products that will come into being to replace the missing disaster element of it. We expect they will be able to take that savings and leverage it into either a so-called double bottom or disappearing deductible or similar type of product to make up that difference.

Senator GRASSLEY. I think that rather than the specific answers you have given me, I think the most important thing is you are telling me that you have compared these the way I asked you and that you do have very indepth information for us to look at.

Mr. ACKERMAN. Yes.

Senator GRASSLEY. OK. My second point would be in regard to the mandatory aspects of it. I suppose that I am somewhat sympathetic to the mandatory aspects of it as a practical matter, not philosophically. On the other hand, I was wondering if you have given any thought and research to the fact that if it were voluntary and farmers were looking at how it would benefit them and the protection they would have, and so forth, you might not be able to sell it on its merits rather than being a condition for participation in the program, and would you have more or less participation?

Mr. ACKERMAN. I think I would answer this way: If we did not have the mandatory linkage, I think, yes, the program sells itself to a great extent. However, the fact that we have had ad hoc disaster payments for 8 out of the last 8 years would result in very little confidence, or I think there would be a problem convincing farmers that they need to get insurance because there will not be an ad hoc payment.

If you do not have the mandatory provision, our feeling is that you would not have sufficient participation to prevent very serious pressures for an ad hoc disaster bill in the future and many farmers would be left out.

Senator GRASSLEY. Part of my reason for asking the question is related to the fact that over a long period of time—and I have served in the Senate more under Republican Presidents than under Democrat Presidents, but even under a Republican President I felt somewhere in the bureaucracy there within USDA there was a feeling that we ought to—or maybe it would as much from interest groups on the outside that over a long period of time have had some sympathetic ears within the bureaucracy—that we ought to be mandatory in this approach.

I guess I want to caution you that you don't fall victim to that needlessly and make something mandatory to be successful in their way of thinking that maybe you don't have to. It is more a caution than anything else, but I would ask you to reflect on that, not for right now.

My last question deals with something you haven't dealt with in this bill, and it is in those States where they don't have—you know, like we are a corn-soybean State. I suppose 99 percent of our income is from corn and soybeans and the animal livestock that goes with it. So you have a few people that are trying to diversify or you have a few people that have been very specialized over a long period of time and they can't get coverage. They would get the Disaster Program as they did in the old way, but can't they be included in your program? Why can't they be included? They aren't included.

Mr. ACKERMAN. If you are referring to the——

Senator GRASSLEY. You know, the orchard or the potato type people, the vegetable people.

Mr. ACKERMAN. Senator, right now crop insurance covers about 50-odd different crops. In the testimony, we have included a long list of all of them. There are about a dozen or two dozen additional crops that we are thinking to add in over the next couple of years.

Senator GRASSLEY. But, see, it might not include those people in my State, right?

Mr. ACKERMAN. That is correct. There are many, many crops that this does not include. We understand that that is a problem.

Senator GRASSLEY. It might include them in some State, but not in another State, right? Isn't it such that apples in Washington would be covered, but not apples in Iowa covered?

Mr. ACKERMAN. I believe that is right. There are situations where crops are covered in some counties or some areas and not in others.

Senator GRASSLEY. Yes, that is right.

Mr. ACKERMAN. We have been looking to expand the program in a number of areas, both into new crops and into new counties. Generally, the caution that we have—the reason that it takes us time to do it is because of the requirement for actuarial soundness. We had some bad experiences in the mid–1980's and we expanded it. We had some embarrassing situations where we took on risks that we should not have taken on, and that is why we are trying to be very careful how do we expand, but we are trying to expand.

Senator GRASSLEY. Obviously, you can't do it between now and the time we pass this legislation, but isn't there some sort of assurance we can get that you are going to solve these problems of making sure what the responsibilities of the Government would be under certain disasters so that you can work out the tables, or are you saying it is going to be impossible?

If you have got one apple grower in O'Brien County, Iowa, and it is the only one in that county—there might only be 10 in Iowa—he can't be covered. Is that basically it? It seems to me like we ought to be able to work that out.

Mr. ACKERMAN. No. Actually, this is something that we are actively working on because this situation has come up in a number of different areas in a number of different States where there has been a press to expand into new county programs. We are looking at a number of different options, such as using written agreements for individuals farmers, basing their rates on adjoining counties, things like that. The main caution that we have, again, is the actuarial concern, but this is something we are trying to work through.

Senator GRASSLEY. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Grassley.

Senator Kerrey?

Senator KERREY. Thank you, Mr. Chairman.

The CHAIRMAN. Incidentally, if I could just add one thing to what Senator Conrad was saying earlier on the costs going up. That is, some of this is going to be—well, all of it will be eventually related to actuarial tables. To use an example, if people plant continuously in a flood plain, then their costs are going to be higher than somebody who plants on high ground. If somebody plants a crop in one area where another one might have been more appropriate, their costs are going to be changed, and I think that whatever we do has to reflect that.

I don't think that a farmer who, for example, avoids flood plains or balances crops appropriately should be penalized for that, and I don't think that the Senator from North Dakota is suggesting that somebody should plant for the program and not for the market.

Senator CONRAD. Mr. Chairman, if I might just respond and say, obviously, if we have got an egregious example where somebody is farming the Crop Insurance Program, then we will go get them.

The CHAIRMAN. Well, we had an example of that a couple of weeks ago.

Senator CONRAD. Absolutely, and we know those, but I don't think we also want a situation in which somebody who has been the victim of a series of natural disasters that seem to have come one upon the other ought to have the whole notion of risk-sharing taken away from them either.

The CHAIRMAN. The Ranking Member has pointed out that since I became Chairman of this committee, we seem to have had more disasters.

[Laughter.]

The CHAIRMAN. I don't know whether this is a coincidence or not. I told him when I became a prosecutor, the county I became prosecutor of hadn't had a murder in 20 years. They had a bunch of doubtful suicides, but they hadn't had a murder in 20 years.

[Laughter.]

The CHAIRMAN. I became prosecutor and inside of 3 or 4 months, we had half a dozen or more murders and it created some question.

[Laughter.]

Senator CONRAD. Maybe this is a whole career pattern, Mr. Chairman.

[Laughter.]

The CHAIRMAN. Senator Kerrey?

Senator KERREY. I would like to talk about the dual delivery recommendation. You are recommending that dual delivery occur as a consequence of understandable concern that there may not be private sector insurance agents available in certain parts of the country, and thus we need to have the ASCS prepared to do that.

My concern is that in directing it in the legislation, you will have to have every ASCS office, as a consequence, make the effort and acquire the expertise to do far more than just be able to make recommendations about catastrophic coverage. My question, Mr. Ackerman, is whether or not you are open to a change in this legislation that would merely give the FCIC manager the authority to provide assistance to ASCS offices in those areas where there is a shortage rather than requiring every ASCS office nationwide to get this expertise.

Mr. ACKERMAN. Well, let me start with this. As far as a change in the legislation, I am not in a position to talk about changes in the legislation today, but we are obviously interested to look at any ideas.

We felt that the dual delivery system was necessary because of a simple workload effect. Under this proposal, with mandatory linkage, we may have as many as a million or more new policies coming into this system in the first year. That is a very big capacity question. We felt that we could not avoid to have sign-up disruptions in the first year because of the importance to get this program off to a clean start.

As you mentioned, there are many areas in the country where there are a lot of agents, but there are many other areas where the number of agents is far less—many areas of the country. There are a number of States in the upper Midwest, for instance, where you have 2,000 or more agents. There are other States where you have a dozen or less. There are many States where you have 200 or 300. There is an extreme variance regionally and State by State, in some cases even county by county.

We have had a number of discussions with ASCS on this particular point. I have met with Mr. Buntrock of ASCS. Our respective agency staffs have met to discuss what is involved in setting up this dual delivery system. Obviously, there are some logistical challenges involved. It is something we are going to have to work through, but we have felt that we needed to have at least a backup. We felt we needed to have this kind of system in place to create the most convenient possible delivery system for farmers, particularly given the mandatory linkage.

Senator KERREY. Well, essentially, you are saying that it is the mandatory linkage that creates the requirement for dual delivery?

Mr. ACKERMAN. Yes, because that is——

Senator KERREY. So that if we were able to persuade you that there is a better approach than mandatory linkage—let us say we decided to go with a waiver of right of disaster payment if someone did not want to purchase crop insurance. Then there would not be the necessity at all of a dual delivery system?

Mr. ACKERMAN. I think we would still have a concern about it simply because we want to have high participation in this program. We hope to encourage high participation in this program all over the country.

Senator KERREY. Well, I just say, with respect, that this thing is supposed to be a tool used by producers to assess risk, not a tool used by the Government to carry out some administrative mission. I say with great respect that I would be concerned about a blanket requirement that every ASCS office had to offer catastrophic coverage. They are going to have to acquire much more capacity and expertise than that which is necessary simply to provide catastrophic coverage, if we want to encourage producers to purchase buy-up coverage.

You know, we are going to invest a lot of money and a lot of time in many areas of the country where this expertise already exists, and I would just say with great respect that if the dual delivery system is, as you have indicated, connected in any way to the requirement of linkage, then I think it would push me even stronger to consider moving to a waiver requirement for catastrophic coverage as opposed to requiring crop insurance purchase if one was going to be a participant in either a Farmer's Home or the farm program.

Mr. ACKERMAN. I would only say that with or without linkage, the goal of this program is to dramatically increase participation in crop insurance because that, we feel, is the only way to justify the ending of ad hoc disaster programs.

Senator KERREY. Well, I think the goal of increased sign-up in crop insurance is admirable, but it should occur as a consequence of the producer assessing the risk and making the judgment that this was preferable to not having any coverage at all. We then need to make sure that we put in the law provisions that give us certainty that not only is this not going to become a spending program that is unlimited and that has no checks on it at all, or that we find ourselves with substantial amounts of egg on our face a couple of years from now. It seems to me that we have also got to set in the law assurances to taxpayers and colleagues that if we are going to allocate $5 billion in this fashion that we are not going to have a disaster program.

I am not, Mr. Ackerman, persuaded that the linkage gets that done. Just merely increasing the percentage of people signed up, I don't think necessarily gives us that kind of assurance. I have serious problems with this dual delivery system. It is obvious that I do. I think just on the face of it you are going to require an investment in time and training that is unnecessary in many parts of the country and create additional administrative costs that we don't need to have.

Second, I think particularly if you connect it to the linkage issue—our effort here should be, with this law, to give producers something that they can bank on, give the producers something that they can use to assess the possibility of disaster. It ought not be a program that they then farm instead of the farm program. It ought to be something that we can, straight-faced, say to every taxpayer that doesn't live in an area where there is agriculture that this is vastly preferable to this status quo. I want to be able to do that when we pass this bill this year.

Senator HEFLIN. I might say there are differences of opinion on that at times.

Senator KERREY. Good.

Mr. ACKERMAN. I would only say that we tried to design this program with the idea of increasing participation as much as possible in order to make future disaster programs unnecessary. To do that, we felt it was——

Senator KERREY. Let me follow on what the Senator from Alabama said because I am not suggesting that we not provide the opportunity for ASCS offices in Alabama to be a source of information in processing crop insurance. I am merely saying that in States like Nebraska where we have substantial private sector development already, it doesn't make sense for us to ask the ASCS office to participate in a dual delivery system when I have already got the expertise there.

It doesn't, it seems to me, make sense for us to take this approach if there is an alternative mechanism that allows States like Alabama that may need the ASCS office to deliver the product—if there is another approach that would allow that to occur.

Mr. ACKERMAN. Senator Kerrey, I would simply point out that under our proposal farmers in Nebraska would have the choice. They could go either to a private agent or to an ASCS office.

Senator KERREY. Yes, but ASCS offices will not have the choice. They will have to acquire the expertise. If there is one farmer that walks in there with a law saying that the ASCS will process your insurance, every ASCS office will have to have the training to understand the Crop Insurance Program, will they not?

Mr. ACKERMAN. They would have to have someone there, yes, who understands the Crop Insurance Program.

Senator KERREY. Yes, so whether there was 1 farmer or 1,000 farmers walking in that office, that office will have to have the expertise to be able to answer the question that a private sector insurance agent sitting out there with the expertise can answer, yes or no?

Mr. ACKERMAN. Yes.

Senator KERREY. Well, that seems to me to be an extremely inefficient way to operate this program.

Mr. SMITH. Senator Kerrey, I would also make the observation that the reverse is true, too, in terms of a farmer wanting to participate in the commodity program but the service is not available in a particular area to enroll. Our effort here is to make available to the producer the option of obtaining the catastrophic insurance either through the ASCS or FSA structure, as we are going to our reorganization.

But the private sector will have the opportunity to offer the catastrophic and the buy-up insurance in many cases prior to that producer ending up at the county ASCS office as an alternative because, generally, they are involved in acquiring their insurance way before they come in to sign up for the ASCS commodity programs.

Mr. ACKERMAN. I would only make one other point, Senator. I think your basic point is right that the resource need is—there is a lot of regional variation in the resource need for dual delivery. Obviously, in the State of Nebraska where you have a very large number of private agents, we would expect under our proposal that the bulk of farmers who get catastrophic coverage will buy it through private agents. In other parts of the country, that is probably not the case, but we feel that we have enough flexibility to work with ASCS to make this available in different parts of the country.

Senator KERREY. I don't think the bill provides you with any flexibility at all.

Mr. ACKERMAN. We have to provide the expertise in all of the offices, but as far as the level of resources and how we manage that and how we put different resources in different offices, the amount of resources—on that, we have a good deal of management flexibility.

The CHAIRMAN. Senator Daschle?

Senator DASCHLE. Let me go back to a comment I made in my opening remarks and ask you, Mr. Ackerman, whether you have looked at the possibility of providing dollar coverage. One of the concerns that I have besides the inadequacy of the program is the complexity of it. A lot of our farmers have complained frequently about how complicated the calculation is for eligibility and for premiums, and have suggested to me that simply having the ability to buy a dollar amount of coverage would be a very simple way to address this. Have you looked at it?

Mr. ACKERMAN. Yes, Senator, we have looked specifically at this. I will tell you, in my meetings with farmers around the country, I have heard that very same complaint. I have heard it phrased a lot of different ways, but it comes down to the same thing. Farmers want a more simple program. A lot of comparisons are made to the crop hail insurance system where you can buy dollar coverage.

Senator Heflin mentioned cost of production coverage and compared it to your proposal for dollar coverage. I think there is a lot to that as well. In many cases, farmers know what their cost of production is. They know that dollar figure and would like to be able to simply insure that dollar figure.

We have had a number of discussions with the Economic Research Service and we have talked to some of the producer organizations. We are looking at this. We would like to be able to put together at least some kind of pilot program to test out this idea because I think there is very much a demand for it.

Senator DASCHLE. Well, I would hope we might be able to go beyond the pilot project, but in any case I am pleased to hear that you are open to the idea.

Second, there has been a lot of confusion this spring about preventive planting. We thought that we had clarified that after last year's problem in not allowing prevented planting coverage, at least to the degree we wanted. We thought that that was going to be the case. Farmers were then told that, no, they weren't going to be eligible for certain kinds of prevented planting coverage, and now it appears that that decision may be reversed.

Could you clarify what the Department's position is on prevented planting coverage right now?

Mr. ACKERMAN. Senator, I regret the confusion that did occur. The preventive planting issue was complicated by basically weather events that occurred late in the year. Basically, preventive planting does apply on all of the major crops. The question that came up was if you have land which is still underwater from the winter or from last summer's floods, whether it would qualify for preventive planting.

Basically, the line we drew was that if land is now basically permanently underwater because of recent weather events and it has not been damaged by an insurable cause of loss—if, however, your land is still wet from snow last winter but normally would dry out between now and the end of the planting season, then it is covered, so that if rain occurs which prevents the land from drying out, it would be covered.

Senator DASCHLE. In other words, the definition of "permanent" is 1 year; that is, if it is wet for the entire duration of the crop year, it would be considered a permanent wetland and therefore not eligible for coverage?

Mr. ACKERMAN. The legal requirement that we have to work with is that a farmer be prevented from planting by insurable cause that occurs within the insurable period. If land is wet, but that land would normally dry out, then that land is coverable.

Senator DASCHLE. So if it would normally dry out, even though it may not dry out this year, it would be coverable?

Mr. ACKERMAN. It would be coverable. If it does not dry out this year because what normally would be an average amount of rain this year becomes an excessive amount of rain simply because the land started out too wet, that land would be coverable.

Senator DASCHLE. We have a lot of areas in South Dakota that fit that murky status of maybe being wet for the entire duration of this year or last year, in particular, but normally would be dry. So there is a lot of confusion, and I can't emphasize enough how important it is that we clarify and continue to clarify. One clarification in some cases isn't enough, and I would urge you to keep talking about it so as to bring people to a better level of understanding.

Finally, let me ask you about catastrophic yield floors. I know they have been calculated, and I think there is some concern about how you have calculated them and how applicable they are across the board, a little bit along the lines of what Senator Conrad was talking about.

How did you calculate the catastrophic yield floors?

Mr. ACKERMAN. We are still in the process of doing it and we have not made a final decision on this yet. Basically, when we put into place the 4- to 10-year APH system last year, following on the reconciliation bill, we put in a 10-percent cap, which means that your yield cannot fall more than 10 percent a year.

Originally, we felt that that would be a one-year provision and that for permanent purposes we would put into effect a catastrophic year adjustment that would be part of the permanent APH program. Recently, we have put out a proposal on how that would work and the idea is that this would go into effect for the 1995 Crop Year. The 1994 Crop Year, the current year, is covered by that 10-year cup.

We have gotten a fair amount of feedback on our proposal. We understand it is controversial. There is some disagreement among different groups about how it would affect them. We have not made a final decision on it. We want to listen to everybody on this and come up with something workable.

Senator DASCHLE. Well, as you do, I hope that you will stay in very close consultation with many of us. I think we have some concerns about the definition and the applicability of those floors, and we would be interested in working with you on it. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Daschle.

Senator Heflin?

Senator HEFLIN. In calculating the cost relative to this—and Senator Lugar raised CBO and others—in the costs that you have calculated and worked with OMB on, have you taken into account the savings that usually occur when you have a widespread disaster in the target price payments that occur?

Usually, when you have a disaster the price of the commodity goes up, and therefore the gap between the target price and the market price is much narrower, meaning therefore there is less payment. It seems to me that as an actuarial calculation of cost for the future and as we go along that there is a relationship between those. Are those being calculated at the present time in the estimates of cost?

Mr. ACKERMAN. Senator, the answer is this, and it may sound like a strange answer, but in making its cost projection—and OMB may correct me on this after this hearing—the assumption made was that FCIC operates under a 1.1 loss ratio. We are required to do that by law, and so the cost projections for the Crop Insurance Reform are based on our complying with a 1.1 loss ratio.

In coming up with the data on past years and the actual cost of the Disaster Programs, the effect you are talking about was looked at. I frankly don't know whether this was looked by CBO in their cost estimate, but I think you are right. When we look at this program and what the actual costs will be, it is something that we do have to look at.

As I mentioned before, trying to come up with a meaningful cost projection on a program like this going out 3, 4, 5 years into the future, these assumptions that you make are very sensitive and they can result in wide price swings in the projected costs or savings.

Senator HEFLIN. Well, should there be some language in this bill that relates and takes into account—I don't have any suggestions of any language here, but just the concept that this be—if it is, as Senator Lugar says, an entitlement program, there ought to be some accuracy and there ought to be some interrelationship between cost savings that occur brought about by disasters into the target price deficiency payments and the cost of the crop insurance. I mean, it is something that ought to be looked at as to how they might relate.

Now, another question is I am curious—I should have talked to my staff about this, but I haven't.

[Laughter.]

The CHAIRMAN. Do you go on the realization that I have come to that we are merely constitutional impediments to our staffs, or constitutional necessities?

Senator HEFLIN. Constitutionally impractical, I think.

The CHAIRMAN. Yes.

Senator HEFLIN. The concept of making one small minimum payment for the catastrophic insurance, regardless of size of farm or size of income or other things—that is, the concept that if a farmer has got 50 acres, he pays the same price for catastrophic insurance as a farmer that has got 1,000 acres—why isn't there some progressivity involved in this as to the charge?

Mr. ACKERMAN. The reason that it is a flat fee is we wanted to make it clear this is a processing fee, not a premium. The $50 is basically the cost of processing the papers as opposed to insuring the land.

Senator HEFLIN. What is the rationale behind that? Is it the concept of giving them that amount of insurance and just the processing that is doing it?

Mr. ACKERMAN. Essentially, what we are doing is, in a way, taking the Disaster Programs and now merging them into the Crop Insurance Program. We are basically delivering these funds. What in the past would have been a disaster payment, we are delivering through a crop insurance system. By having the Government pay the premiums for that 50/60 Coverage, it is like setting up a rainy day fund for these types of catastrophes in the future. We did not think it should be free. We felt that the farmers should bear the burden of paying the processing cost and that is why we built in the $50 fee.

Senator HEFLIN. Well, now, on the basis of buy-up coverage, the figures that I have seen as to savings as to the present crop insurance is somewhere in the neighborhood of 8 to 17 percent, I believe, or somewhere like that. If there were some situation relative to the basic coverage payments, could not there be substantially more savings on the buy-up coverage premium?

I am just exploring it. I am not suggesting doing it, but the concept that I am thinking about is if there were a payment for the catastrophic which was substantially more, but yet substantially less than what normal crop insurance was, could it therefore in the buy-up insurance reduce the premium that the farmer might pay and the overall situation might be better? I just raise that as a basic concept that we are looking at as to whether or not the farmer in the long run would be better off under one option as opposed to another option. Of course, you would have to have some scenarios, cost situations, money figures, in order to determine it.

Mr. ACKERMAN. Well, conceptually, if you either have farmers contribute more to the catastrophic level or if you lower the catastrophic level or change the catastrophic level, that could provide more funding for the higher level of coverage. However, we wanted to keep the catastrophic level available for a nominal cost in order to make it very, very accessible. This will be what exists instead of disaster payments. We wanted to make sure that it is as easy and accessible to as many farmers as possible. If you starting raising the price of catastrophic coverage, then you are making it less accessible. That is the balance that is involved. We agree with the concept. The more farmers who buy higher level coverage, the more financially sound the system will be.

Senator HEFLIN. Well, it may be somewhere in between that some consideration—I am just speaking conceptually. I don't have any figures. I hadn't really thought about it until just sitting down here in regard to it, but maybe some thought ought to be given to it.

My State is a State that has a small percentage of coverage. I don't know what it is right now, but it used to be around 20 percent or something like that. To get them to go to much more and to get away from it, there needs to be considerable savings in the premium. I think if there are considerable savings in the premium, you would have people buying it, but there is going to be some resistance. There is only 10-percent savings and that sort of thing, but if you get up in the neighborhood of 20-, 25-percent savings, then I think that there would be substantially more purchasing of it. I mean, it is just a concept. I don't want to shake the boat or rattle the thing too much, but I think it is one it would be well to give some consideration to.

Mr. ACKERMAN. Senator, let me make two points on that because this is a very important issue and it is something that I have heard a lot in meeting with farmers, particularly in a number of parts of the South and other parts of the country.

There is a concern that premiums are too high and that even the 8 or 10 or 15 percent discounts you would get under the incentives for buy-ups may not be enough. Part of the challenge that we had to work with in designing this bill is that we had a limited pot of money. Even assuming that we might be able to get a $1 billion baseline adjustment, we had a limited pot of money to work with. If you take from any one pool, you have to give to another pool. Someone loses, someone gains. It all has to work within a limited amount of money.

One thing to think about, though, is that part of the reason that rates are high in some areas is because participation has been low in those areas. There are some parts of the country where the people in crop insurance have generally been high-risk farmers, and that has affected the rate base. That has affected the loss history that is used to calculate rates.

As you go to catastrophic coverage with a mandatory linkage that requires a very broad base of producers to get into the program, including producers who have very good risk histories, very limited experience with loss, that, over time, is going to improve the loss history of those counties and will improve rates, that fact in itself. That is not a total answer to the concern, but it is one way to get at it indirectly.

Senator HEFLIN. Well, that may be true, but I don't see a big percentage of savings from that.

The CHAIRMAN. Senator Feingold?

Senator FEINGOLD. Thank you, Mr. Chairman. The hour is quite late, so I will just say a couple of things. I would ask that a longer statement and some questions be submitted for the record.

The CHAIRMAN. So ordered.

Senator FEINGOLD. I appreciate the chance to follow Senator Heflin because the first question I was going to ask, and I will simply comment on it, is about this fee, the flat fee, not reflecting the difference between the sizes of farms. I have heard your answer, but I am a little concerned about the notion of the rainy day fund that you mentioned. We will pursue that another time, but I am wondering if there should be some difference in this fee based on the size of the farm.

Mr. Chairman, the main point I want to make is I think reform is very badly needed, at least as far as Wisconsin is concerned. We suffered 2 million acres of losses as a result of flooding, but very few of those acres were insured. I think our State is either the lowest or one of the lowest in terms of purchasing of the insurance. One figure I have heard is 11 percent, and so very few of those acres were insured and I don't think that is an indictment of Wisconsin farmers, but an indication of problems with the program and that it needs reform.

The current program cannot meet some unique needs of Wisconsin farmers, and the ad hoc disaster assistance has created some problems of its own for farmers, as you well know.

Let me just make four very quick points about possible concerns I have in the context of wanting very much to see some reform occur. As I have mentioned, in Wisconsin we have a unique situation. We grow insurable crops such as alfalfa, hay and feed grains for use on farms, but I want to be sure that any crop insurance reform doesn't discriminate against our producers who are less likely to have documented their on-farm use of feed. That is something that can be very problematic for the type of industry and agriculture we have in our State.

Second, of course, we do have a lot of dairy in Wisconsin, but we have a fair amount of diversity in our agriculture, from strawberries to ginseng. As I understand it, this diversity is another reason that crop insurance has been a little less attractive for Wisconsin farmers, and I am hoping that this proposal addresses that problem for noninsured specialty crops.

Third—and Senator Kerrey was alluding to this—yet, I think in another context—is to make sure that as we do this we don't undo the good work that this Chairman and the Department have done to eliminate some duplication within our current system. I would be very concerned that we don't go backwards in doing this in terms of creating a system that is duplicative.

Finally, it is very important to me, as it is to the other Members of the committee, that the terms of crop insurance policies are fair to all farmers, regardless of size or type of operation, and that sort of comes back to my first comment.

I would only ask one question at this time, Mr. Chairman. The proposal in its current structure mandates participation for farmers participating in USDA programs or receiving an FmHA loan. Will the mandate also apply to farmers receiving indirect benefits, such as indirect market price supports and that type of thing?

Mr. ACKERMAN. The legislation contains a list of the specific statutes and specific programs that are affected. Generally, they are programs with direct payments to farmers. They cover some conservation programs, as well as direct commodity programs, but generally they are programs with direct payments.

Senator FEINGOLD. Then that leads to my followup, which is it sounds like a number of farmers, of course, would not be required to purchase under that scenario if they are only beneficiaries of an indirect benefit. How are they going to know, if this works out the way it should, that ad hoc disaster assistance simply shouldn't be available anymore? What are your plans to market this rather important fact and make sure that farmers understand it?

Mr. ACKERMAN. Part of the reason that we are saying that to get this program up and running for crop year 1995 we need to have a decision by early July is because it is going to be important to undertake a major public education effort along with this program. We are going to have to get the word out to farmers not only of nonprogram crops, not only farmers who receive indirect benefits, but all farmers that, in fact, this new program exists, that it is going to be important for each producer to assess their own needs in light of it; for those who are not in the programs, to rethink purchasing crop insurance, whether or not they are affected by a mandate; for those crops that are simply outside of the programs, whether they should reassess their needs. But, generally, the direct answer is we are going to have to undertake a very significant public education program in time to get this bill off smoothly.

Senator FEINGOLD. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Gentlemen, thank you very much. We have had a good start to what is going to be, I have a feeling, a lot more discussion in this area. I thank you both for your help.

Mr. SMITH. Thank you very much.

Mr. ACKERMAN. Thank you.

The CHAIRMAN. Thank you. We stand adjourned.

[Whereupon, at 12:20 p.m., the committee was adjourned.]

APPENDIX

Deputy Under Secretary Dallas R. Smith and Kenneth D. Ackerman

We want to thank the committee for holding this hearing today on the administration's proposed "Federal Crop Insurance Reform Act of 1994," which was, as of yesterday, introduced by Senator Leahy and a number of cosponsors. We, and particularly Secretary Espy, greatly appreciate your attention to the administration's goal of reforming Federal crop insurance and we look forward to working with all committee Members in developing a plan that will work well for American farmers and taxpayers.

As much as any program in Washington, Federal crop insurance has long needed change. The discontent with this program from farmers, taxpayers, insurance industry, Congress, the President, and others, has focused on longstanding, well-documented problems:

- Despite an annual crop insurance price tag approaching $900 million, Washington has had to step in with crop disaster relief payments to farmers in 8 of the last 8 years. Standing alone, crop insurance, with a nationwide participation rate of just 33 percent in 1993, simply has not provided an adequate safety net. These off-budget crop disaster programs have cost taxpayers an average $1 billion per year over the last decade, and more than $1.5 billion per year over the last 6 years. This conflict between crop insurance and crop disaster programs must end.
- Crop insurance has chronically lost money. Since 1981, the Federal Crop Insurance Corporation's (FCIC) insurance operations have produced an overall "loss ratio" of about 1.47. That means that we have paid out about $1.47 in claims for every $1.00 collected in premiums and premium subsidies, not counting overhead costs. Any private business posting these numbers would have gone bankrupt years ago. Taxpayers are tired of picking up the tab. The program must be made more financially sound.
- Farmers continue to complain that Federal crop insurance does not meet their needs. The program must be made more farmer-friendly with new products, more flexibility, and a good attitude toward listening to customers.

Last summer's disastrous Midwest flood and Southeast drought brought the problems of crop insurance into sharp focus for Americans across the country. Secretary Espy and President Clinton travelled extensively in the flooded areas, and spoke directly with farmers about their problems and experiences in dealing with Federal programs designed to assist them. Again, and again, they heard concerns. These problems ranged from lack of coverage for prevented planting, to inflexible price elections, to uncertainty about the availability and timeliness of help. On March 2, Secretary Espy announced a massive reform program that grew directly from last summer's experience.

In essence, we are recommending a 2-pronged program to fix Federal crop insurance: (1) reform from the inside out—administrative steps to make the program more financially sound and farmer-friendly, and (2) reform from the outside in—the new "Federal Crop Insurance Reform Act of 1994."

Federal Crop Insurance Reform Act of 1994

The Federal Crop Insurance Reform Act of 1994 is the centerpiece of our reform plan. This bill responds specifically to the central finding of our review following last summer's experience. Ad hoc crop disaster bills over the years have been an effective act of government for people in crisis. These relief programs have helped millions of Americans, farmers and nonfarmers alike, survive the most difficult periods in their lives. However, the reliance on this ad hoc relief that has developed as a result of an underused crop insurance system, has created a level of uncertainty that is bad for both farmers and taxpayers.

In fact, the repeated availability of ad hoc relief has been a disincentive for many farmers to participate in the Federally-backed Crop Insurance Program.

In a crisis, a farmer without crop insurance, who depends on disaster relief, has no way of knowing in advance what his or her protection will be. Farmers do not know whether a disaster bill will be approved or, if approved, what payment level the bill will provide. Further, a farmer suffering a loss must hope that other farmers across the State, and in 10 or 20 other States, are experiencing similar losses in order to create the momentum for legislative action.

An examination of history reveals that victims of local disasters often get less than those of wider disasters, even though the individual farmers may suffer similar losses. For example, victims of 1992's *Hurricane Andrew* in Florida, received aid at 50.04 percent proration while victims of this summer's Midwest flood received aid at 100 percent. Farmers with losses in States not involved in the large disasters found that congressional decisions affecting their livelihoods were being based upon factors totally disconnected from their circumstances.

What will happen if natural disaster strikes again next year? Farmers trying to plan their operations in a businesslike manner simply have no way to know.

Meanwhile, taxpayers are concerned that disaster aid is exempt from the budget discipline that controls spending in virtually every other area of government. At a time when deficit reduction is a paramount domestic priority, the price of these emergency programs continues to rise. The public rightly questions the point of having two expensive programs trying to address a single recurring problem—crop disaster aid. Americans are generous in a crisis, but their patience has limits.

The Federal Crop Insurance Reform Act of 1994 resolves this situation by combining crop insurance and disaster aid into a single, unified, on-budget program. This requires two steps. First, the legislation expands the Crop Insurance Program to protect farmers, financially, when natural disasters ruin or damage their crops. Second, it creates a legal barrier against future ad hoc crop disaster programs.

We view this proposal as being both a vital budget reform as well as a vital agricultural reform.

The legislation is built upon several key pillars:

Catastrophic crop insurance coverage: The Federal Crop Insurance Program is supplemented with a new catastrophic coverage level available to farmers of insured crops for a nominal processing fee of $50 *per* crop *per* county, up to $100 *per* farmer *per* county. The processing fee may be waived for limited resource farmers. The idea is to make this coverage very economical and accessible.

Policies will cover prevented planting as well as actual crop losses, and will be based on actual individual farm yields.

This catastrophic plan will protect against yield losses greater than 50 percent at a payment rate of 60 percent of the expected market price—a level comparable to 4 disaster relief programs in recent years. The difference is this: catastrophic coverage is an individual insurance policy, not an ad hoc relief payment. It is a contract that a farmer can take to the bank as collateral on a loan. Even if no other farmer in the country suffers a loss, the farmer has the security of knowing that he or she is covered.

Under this approach, in a future agricultural crisis, farmers will know in advance the extent of their protection and taxpayers will know in advance the limits of their exposure.

Buy-up coverage: Most producers desire higher levels of coverage than the catastrophic plan offers to protect their farm businesses. The legislation provides targeted subsidies for these higher insurance coverage levels. The out-of-pocket cost for coverage at the 65- or 75-percent yield levels will fall by about 10 percent from current levels. In addition, the bill gives FCIC the authority to offer policies covering

85 percent of yield. The more farmers buy higher levels of coverage, the more fiscally sound the system will be.

Linkage to farm programs: To ensure the widest participation, eligibility to participate in Federal commodity price support, production adjustment, conservation, and Farmers Home Administration loan programs is linked to the Crop Insurance Coverage at the catastrophic level or above. We expect that this step will result in crop insurance participation rising from 33 percent to about 80 percent of insurable acres.

The purpose of linkage is to guarantee that, if disaster strikes, the bulk of U.S. farmers will be protected. We understand that farmers, like other Americans, do not like being told what to do, this is human nature. But the linkage proposal is fair and not onerous given the nominal cost of catastrophic coverage to farmers.

Delivery: Farmers may choose to obtain the catastrophic coverage either through a private reinsured company or through a USDA county office. Higher insurance coverage levels remain available only from private insurers. Our goal is to provide the most convenient and efficient means of quickly getting catastrophic crop insurance coverage to the largest number of farmers. Private sector's insurance sales force will have full opportunity to compete for the catastrophic market.

Industry competition: The legislation restructures premium rates to reflect both direct premium subsidies and the expense reimbursement allowance to reinsured companies. This provides a more realistic picture of the cost of the program both to farmers and taxpayers. More efficient companies will be allowed to pass along lowered overhead costs in reduced rates charged to farmers, creating a more competitive market environment.

Uninsurable crops: A standing disaster program is created for crops not covered by crop insurance, with payments triggered by area-wide loss levels and protection levels similar to those under the Catastrophic Insurance Plan. This way, no one is left out in the cold, the wet, or the dry.

Repeal of standing disaster assistance authority: Current authorities for standing crop disaster relief are repealed. In the future, the expanded Crop Insurance Program will replace disaster bills as the Federal response to emergencies involving widespread crop loss.

As added protection, the legislation exempts appropriations for agricultural crop disaster assistance from designation as an "emergency" for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended. This action essentially places future crop disaster bills on budget. They must be paid by offsetting spending cuts, rather than being allowed to proceed as "emergency" spending. Therefore, the primary vehicle for providing crop disaster assistance will be the Federal Crop Insurance Program, as its legislation originally intended.

We project that the new program created by the Federal Crop Insurance Reform Act of 1994 will have a net cost of about $8.1 billion for fiscal years 1995 through 1999. The conference agreement to the Budget Resolution recognized the annual cost of agricultural crop disaster assistance by placing it on budget at $4.5 billion in outlays over 5 years. By eliminating future ad hoc agricultural disaster payments, the Federal Crop Insurance Reform Act of 1994 will result in a 5-year savings of about $750 million compared to the projected cost of maintaining the current Federal Crop Insurance Program and the annual ad hoc disaster payments for agricultural crops.

We would like to implement this new program in crop year 1995 so that its benefits of certainty can be felt by farmers and taxpayers. This timetable is ambitious, and will require Congress to do its part. Combining Federal crop insurance and disaster aid will be a complicated process involving training of personnel, rewriting of rules, and educating customers. We must do it right.

Achieving Financial Soundness

Resolving the conflict between Federal crop insurance and disaster programs is not enough. We must, at the same time, also make Federal crop insurance more financially sound. The old way of doing business, where Federal crop insurance lost excessive amounts of taxpayer money year after year, is simply no longer acceptable. The Omnibus Budget Reconciliation Act of 1993 (OBRA) requires FCIC to achieve an overall projected loss ratio of 1.1 by the year beginning October 1995. The Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Act of 1994 mandated additional cost-saving reforms. We are committed to, at least, meeting this loss ratio goal and attaining actuarial soundness. American taxpayers will accept nothing less.

As part of the March 2 Reform Package, Secretary Espy released the FCIC's "Blueprint for Financial Soundness" mandated by OBRA 1993. This document outlines the specific steps that FCIC will take to improve the program's financial soundness and the savings we expect to result. Those steps include:

- A modified-APH (actual production history) program to better tie individual farmer's insurance coverage to their individual yield history. We will modify this program to permit a catastrophic yield adjustment beginning in crop year 1995;
- An expanded nonstandard classification system (NCS) to identify those farmers with unusually high loss histories and adjust their rates to more sound levels;
- Greater emphasis on program compliance to prevent over payments based on errors and abuses; and
- Greater risk-sharing with private insurance companies.

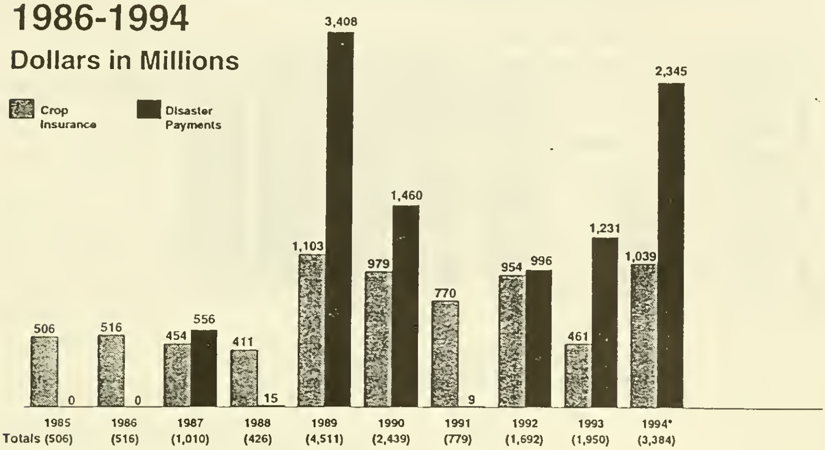
Finally, we will work to make Federal crop insurance more farmer-friendly by introducing new products, more flexibility, and more responsiveness to complaints and ideas from farmers, agents, companies, and all participants in this program. Just recently, FCIC for the first time used the authority provided for in the Food, Agriculture, Trade and Conservation Act of 1990 to back financially an innovative new insurance product developed by the private sector. This process of partnership will continue.

The challenge of reforming Federal crop insurance is complex and difficult, but we believe our plan is a responsible one and will be responsive to the needs of American farmers and taxpayers. We hope that Congress will act expeditiously on the legislation so that we may implement the new program for the 1995 Crop Year.

We will be pleased to answer any questions you may have.

Federal Outlays for Crop Emergency Aid 1986-1994

Dollars in Millions



Crop Insurance, 6 Year Average (1989-94) 884-10 Year Average (1985-94) 719
Disaster Payments, 6 Year Average (1989-94) 1,575-10 Year Average (1985-94) 1,002

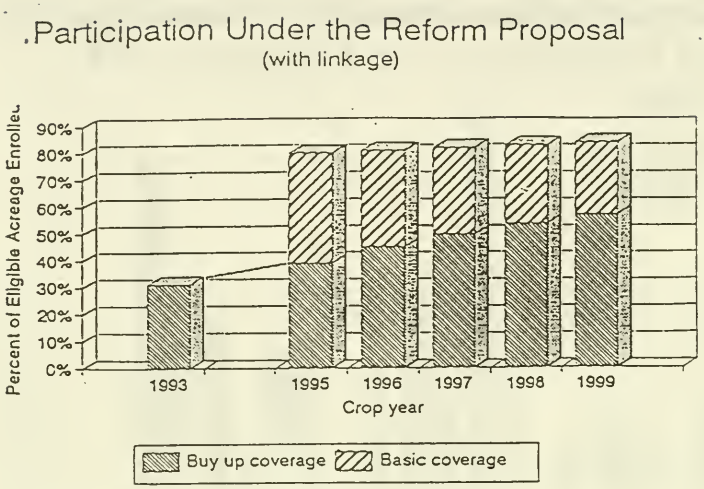
*Estimate

Crop Emergency Aid Projected Taxpayer Savings

Dollars in Millions

	Total 1995-99
Current Divided Approach:	
Crop Insurance:	3,900
Ad Hoc Disaster Relief:	5,000
Total Current	8,900
New Combined Program:	8,100
Taxpayer Savings:	$750*

Source: Budget of the United States Government Fiscal Year 1995
*Minimum Based on Rounding Off in Budget



- Under the reform proposal, producers who participate in price support and income support programs or who have loans under any program of the Farmers Home Administration are required to obtain at least the catastrophic level of insurance for *all crops of economic significance* farmed in the county in which that producer has an interest. The linkage with commodity programs will ensure that participation in the crop insurance program is 80 percent of eligible acreage in 1995.

- Requiring producers to obtain catastrophic crop insurance for *program crops only* would potentially lower the crop insurance participation rate as significant crops (e.g., soybeans) would be largely unaffected. Participation rates would likely be only as high as 65-70 percent of eligible acreage.

- If crop insurance is not linked to commodity program eligibility it is likely that crop insurance participation will be only 55-60 percent of eligible acreage, at least in the early years of program operation. Lower participation rates could encourage ad hoc disaster assistance which would further undermine participation.

TARGETED SUBSIDIES FOR BUY-UPS
COMPARISON OF FARMER'S OUT-OF-POCKET EXPENSE

WITH TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act	Difference
65% of yield	$296	$246	-17 percent
75% of yield	$623	$574	- 8 percent

WITHOUT TARGETED SUBSIDY FOR BUY-UPS:

Coverage Level	Current Cost	Cost Under Reform Act Without Buy-up Subsidy	Difference
65% of yield	$296	$282	- 5 percent
75% of yield	$623	$609	- 2 percent

Assumptions:

100 acres planted/ 100 bushel yield/ $1.00 price election
10 percent premium rate for 75 percent coverage

Stated costs are the farmer's out-of-pocket cost for the coverage after deducting the subsidy.

FEDERAL CROP INSURANCE CORPORATION
PREMIUM/INDEMNITIES/LOSS RATIOS
1981 – 1993 (Crop Year Data)
(dollars in thousands)

YEAR	PREMIUM	INDEMNITIES	LOSS RATIO
1981	$379,169	$408,101	1.08
1982	398,671	528,157	1.32
1983	291,353	587,691	2.02
1984	435,588	639,969	1.47
1985	439,733	684,364	1.56
1986	381,753	616,993	1.62
1987	366,640	369,163	1.01
1988	437,654	1,053,775	2.41
1989	820,763	1,215,763	1.48
1990	838,040	1,028,581	1.23
1991	737,146	953,257	1.29
1992	758,768	920,901	1.21
1993 (est.)	784,652	1,412,374	1.80
TOTAL 1981 – 1993	$7,069,930	$10,419,089	1.47
AVERAGE 1981–1993	$543,841	$801,468	1.47

1992 Figures – Actuals from Oct. 27, 1993 Summary of Business
1993 Figures from Damage Report of Oct. 20, 1993.

COMPTROLLER/MT/LOTUS:HWFTE 11/11/93

UNITED STATES CROP VALUE SUMMARY

INSURED CROPS
NATIONAL VALUE OF ALL CROPS $92,385,311,215

CROP	REPORTED ACRES	DOLLAR VALUE	PERCENT OF TOTAL VALUE
Corn, Grain	66,950,480	18,008,691,703	19.493
Soybeans	56,498,545	11,213,520,994	12.138
Wheat	69,353,948	7,296,722,323	7.898
Cotton, Upland	11,501,930	4,884,989,171	5.288
Tobacco	732,740	2,829,953,119	3.063
Potatoes	1,363,816	2,396,315,957	2.594
Nursery, Container		2,375,462,434	2.571
Corn, Silage	6,124,202	1,954,333,349	2.115
Oranges	770,214	1,515,565,984	1.640
Apples	352,114	1,408,875,579	1.525
Peanuts	1,807,325	1,256,883,370	1.360
Sorghum, Grain	9,086,031	1,203,379,180	1.303
Sugar Beets	1,375,468	1,125,379,300	1.218
Rice	2,812,429	1,040,085,810	1.126
Tomatoes - Fresh	137,578	924,639,769	1.001
Barley	7,505,000	906.414,000	0.981
Grapes - Processed	408,090	885,062,003	0.958
Sugarcane	723,840	813,706,190	0.881
Raisins	266,737	677,942,810	0.734
Beans, Dry	2,099,403	660,075,798	0.714
Almonds	413,202	639,048,900	0.692
Tomatoes - Processed	353,911	617,956,960	0.669
Grapes, Table	90,343	494,035,398	0.535
Onions	146,180	493,421,041	0.534
Peaches	117,823	482,137,001	0.522
Oats	6,015,517	412,485,275	0.446
Grapefruit	168,928	354,979,543	0.384
Lemons	59,816	347,117,610	0.376
Pears	50,031	281,428,961	0.305
Plums - Fresh	45,199	265,029,699	0.287
Sweet Corn - Fresh	191,672	256,059,591	0.277
Walnuts, English	184,837	254,412,036	0.275
Sunflowers	1,854,495	247,439,110	0.268
Peppers	53,513	225,972,741	0.245

UNITED STATES CROP VALUE SUMMARY

INSURED CROPS
NATIONAL VALUE OF ALL CROPS $92,385,311,215

CROP	REPORTED ACRES	DOLLAR VALUE	PERCENT OF TOTAL VALUE
Sweet Corn - Processed	476,613	213,509,890	0.231
Nectarines	25,761	158,609,100	0.172
Cranberries	27,801	152,828,500	0.165
Beans, Snap - Processed	214,640	139,856,244	0.151
Prunes	79,707	133,203,850	0.144
Peas, Green	293,750	109,804,780	0.119
Tangerines	18,922	69,225,312	0.075
Apricots	20,249	48,509,599	0.053
Peas, Dry	274,500	43,363,600	0.047
Macadamia Nuts	18,700	41,720,000	0.045
Safflower	159,073	37,924,863	0.041
Flax	253,002	20,858,600	0.023
Tangelos	10,419	16,897,699	0.018
Figs	13,071	16,351,600	0.018
Beans, Lima - Processed	21,650	9,432,000	0.010
Temples	9,199	7,641,999	0.008
TOTAL		69,969,260,345	75.736

"Nursery, Container" crops are container grown landscape plants.

Values are not available for the following insured crops: Popcorn, Hybrid Seed Corn, Hybrid Seed Sorghum.

Acreage data is incomplete for apples, peaches, pears and plums.

CROP EXPANSION FEASIBILITY STUDY LIST

Feasibility studies are currently underway on the following crops in anticipation of developing new crop programs:

AVOCADOS	LETTUCE-HEAD
ASPARAGUS	LETTUCE-LEAF
BLUEBERRIES	MUSHROOMS
BROCCOLI	NURSERY CROPS
CANOLA	PECANS
CANTALOUPE	PEPPERMINT
CARROTS	PINEAPPLE
CAULIFLOWER	PISTACHIOS
CELERY	SEED-FORAGE
CHERRIES-SWEET	SEED-LAWN
HAY-ALL	STRAWBERRIES
HAY-HAYLAGE	SWEET POTATOES
HAY-OTHER	WATERMELON

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

CORN-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	89	45	86
90	75	38	69
80	62	31	52
70	48	24	35
60	34	17	17
50	18	9	0
40	0	0	0

ASSUMPTIONS:

PROGRAM PAYMENT YIELD:	100	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$1.79	PER BUSHEL
APH YIELD (REFORM PLAN):	120	BUSHELS PER ACRE
PRICE ELECTION:	$2.40	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

CORN NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	67	34	86
90	56	28	69
80	45	22	52
70	34	17	35
60	22	11	17
50	11	6	0
40	0	0	0

ASSUMPTIONS:

COUNTY AVERAGE YIELD:	100	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$1.12	PER BUSHEL
APH YIELD (REFORM PLAN):	120	BUSHELS PER ACRE
PRICE ELECTION:	$2.40	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

CORN-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	107	54	86
90	90	45	69
80	74	37	52
70	57	29	35
60	41	20	17
50	21	11	0
40	0	0	0

ASSUMPTIONS:

PROGRAM PAYMENT YIELD:	120	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$1.79	PER BUSHEL
APH YIELD (REFORM PLAN):	120	BUSHELS PER ACRE
PRICE ELECTION:	$2.40	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

CORN NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	80	40	86
90	67	34	69
80	54	27	52
70	41	20	35
60	27	13	17
50	18	9	0
40	0	0	0

ASSUMPTIONS:

COUNTY AVERAGE YIELD:	120	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$1.12	PER BUSHEL
APH YIELD (REFORM PLAN):	120	BUSHELS PER ACRE
PRICE ELECTION:	$2.40	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

WHEAT-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	39	19	32
90	33	17	26
80	27	14	19
70	22	11	13
60	16	8	6
50	9	4	0
40	0	0	0

ASSUMPTIONS:

PROGRAM PAYMENT YIELD:	33	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$2.60	PER BUSHEL
APH YIELD (REFORM PLAN):	33	BUSHELS PER ACRE
PRICE ELECTION:	$3.25	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

WHEAT - NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	33	17	32
90	28	14	26
80	22	11	19
70	17	8	13
60	11	6	6
50	6	3	0
40	0	0	0

ASSUMPTIONS:

COUNTY AVERAGE YIELD:	33	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$1.68	PER BUSHEL
APH YIELD (REFORM PLAN):	33	BUSHELS PER ACRE
PRICE ELECTION:	$3.25	PER BUSHEL

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

COTTON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	93	46	65
90	79	39	52
80	65	32	39
70	51	25	26
60	37	18	13
50	19	10	0
40	0	0	0

ASSUMPTIONS:

PROGRAM PAYMENT YIELD:	406	POUNDS PER ACRE
DISASTER ASSIS. PAYMENT:	$0.47	PER POUND
APH YIELD (REFORM PLAN):	406	POUNDS PER ACRE
PRICE ELECTION:	$0.53	PER POUND

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

COTTON - NON-PARTICIPANT

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	79	40	65
90	66	33	52
80	53	26	39
70	40	20	26
60	26	13	13
50	13	7	0
40	0	0	0

ASSUMPTIONS:

COUNTY AVERAGE YIELD:	406	POUNDS PER ACRE
DISASTER ASSIS. PAYMENT:	$0.33	PER POUND
APH YIELD (REFORM PLAN):	406	POUNDS PER ACRE
PRICE ELECTION:	$0.53	PER POUND

FEDERAL CROP INSURANCE CORPORATION

CROP INSURANCE REFORM COMPARED TO DISASTER ASSISTANCE

SOYBEANS

YIELD LOSS %	100% PRORATE	50% PRORATE	REFORM PLAN
	$ PER ACRE		
100	100	53	80
90	88	44	64
80	71	36	48
70	53	27	32
60	35	18	16
50	18	9	0
40	0	0	0

ASSUMPTIONS:

COUNTY AVERAGE YIELD:	45	BUSHELS PER ACRE
DISASTER ASSIS. PAYMENT:	$3.91	PER BUSHEL
APH YIELD (REFORM PLAN):	45	BUSHELS PER ACRE
PRICE ELECTION:	$5.90	PER BUSHEL

POSITION STATEMENTS

American Farm Bureau Federation (AFBF)

Mr. Chairman, thank you for this opportunity to testify on crop insurance legislation on behalf of the American Farm Bureau Federation with its 4.2 million family members from across the Nation.

My name is Doyle Rahjes, and I am the president of the Kansas Farm Bureau and a member of the Board of Directors of the American Farm Bureau Federation.

As a member of the National Commission for the Improvement of the Crop Insurance Program, which completed its work in July 1989, I hope to share with you both my experience there and my activities on crop insurance within the Kansas and American Farm Bureaus.

At the AFBF 1994 annual meeting held in Ft. Lauderdale, Florida, the voting delegates reaffirmed our longstanding policy that crop disaster programs and crop insurance should be combined into a single program designed to obtain the greatest amount of participation.

That is why we feel the objectives and the techniques of the administration's Crop Insurance Proposal are worthy of serious consideration by Congress.

We do, however, have some reservations about certain provisions in the proposal that we feel are contrary to achieving full participation and which apply unnecessary eligibility tests that would further discourage full participation in both the Crop Insurance and the Price Support Programs.

Farm Bureau Policy is very clear that participation in a crop insurance program should remain voluntary and that there should be no mandatory linkages between farm program participation and Farmers Home Administration loan eligibility and crop insurance. The current proposal does not satisfy that requirement. Even though the linkage in the proposed program is limited to participation in the catastrophic coverage portion of the Crop Insurance Program at a nominal fee, it establishes a mechanism that could become very burdensome for producers. Moreover, we are concerned that the nominal costs of the mandatory portion of the program would set a precedent for the future. A cap on participation fees for catastrophic coverage which is set at $100 today could escalate rapidly under future budget pressures, yet producers would be required to participate whether or not they get any real individual benefits from the program. In brief, we believe that a well-designed and attractive voluntary program will work much better. Voluntary access and freedom to participate always win over government coercion.

Another important concern is the linkage between crop insurance and farm program participation. If this linkage is made, then Congress would face a very difficult task of making sure that appropriate measures are taken to isolate the catastrophic portion of the coverage from future budget reconciliation considerations. About $700 million in new money is being requested by the House for the Crop Insurance Reform effort based on previous program crop expenditures resulting from ad hoc disaster legislation. There is concern that if funding remains at the $700 million level, nonprogram crops might be treated inequitably. If there were farm program crop overruns (particularly if parliamentary changes make it increasingly difficult to pass ad hoc disaster assistance for noninsured crops), then noncovered crops would likely receive reduced or pro rated benefits.

We have a number of specific concerns about the levels of coverage. First, the 50-percent yield loss provision of the "basic coverage" provides substantially less coverage for moderate losses than disaster programs that have been implemented in recent years. In other words, disaster funding has been applied to losses below 65 percent of normal production, whereas the proposed Crop Insurance Reform "kicks in" only for yield losses greater than 50 percent. Another shortcoming of the Crop Insurance Reform package is its reliance on yield as a trigger mechanism for insurance payout.

Farm Bureau strongly favors coverage based on dollars-per-acre rather than yield. Reliance on yield as a trigger mechanism tends to skew the program in favor of high-risk production acres and makes it much more likely that gaps in coverage will exit.

Second, with respect to the "buy-up" provisions, it is unclear as to where, and from whom, producers must purchase this coverage. Here there is another potential gap in coverage. By virtue of it being a yield-triggered pay versus a dollar-per-acreage coverage, even if narrowly drawn, there is an invitation for future retrenchment of program benefits, and as such make the overall Crop Insurance Plan less effective when the day comes that a future Congress will be urged to provide disaster relief beyond that provided by the Crop Insurance Program.

Finally, there are a number of provisions in the administration's proposal in section 522, the "noninsured assistance program" that we view with great concern. They include:

> ". . . *(8) A person who has qualifying gross revenues in excess of $2 million annually, as determined by the Secretary, shall not be eligible to receive any noninsured payment."* [Emphasis added.]

This section then goes on to define "qualifying gross revenue". Granted, the scope of this language is fairly narrow, and the $2 million threshold might appear to many observers as high, there is great mischief afoot in establishing a "means test" in this legislation.

Veteran Members of this committee will recall the 1990 Farm bill debate and the floor struggle necessary to avoid a much lower $100,000 means test amendment for price support program eligibility.

It seems obvious to us that the $2 million level or any stated level will become an early and easy target for budget cutters.

Another troublesome provision in section 522 also states as follows:

> ". . . *(e) payment limitations—(1) The total amount of payments that a person shall be entitled to receive annually under this section may not exceed $100,000."* [Emphasis added.]

The section goes on to define "person" along the same lines as now apply to price support programs.

Finally, the language regarding the estimation of yields by averaging observations from a minimum of four previous crop years needs to be clarified for fruits and vegetables. For some fruit and vegetable operations in the more temperate climatic zones, there may be several crops planted sequentially in the same calendar year. In light of this, is the intent of the legislation really yields of crops planted in "four continuous crop years," or "four consecutive crop plantings?"

In summary, Mr. Chairman, we feel this proposal has many attractive features, and the basic idea behind it is sound.

However, we hope you and the rest of Congress will amend it by deleting or changing the provisions we find counter productive and unfair.

American Association of Nurserymen (AAN)

Mr. Chairman, and Members of the subcommittee, the American Association of Nurserymen (AAN) welcomes this opportunity to present the nursery industry's views regarding legislation to reform the Federal Crop Insurance System.

BACKGROUND

Founded in 1875, AAN is the national trade organization of the nursery industry. We directly represent approximately 2,300 growers, landscape professionals, garden center retailers and horticultural distributors. Through the membership of our State and regional nursery and landscape associations, AAN represents an additional 16,000 family farms and small businesses in the nursery industry.

ECONOMIC STATURE OF NURSERY INDUSTRY

According to USDA's Economic Research Service (USDA-ERS), the nursery and greenhouse industry continues to outpace other agricultural sectors in cash receipts. Nursery and greenhouse crops totaled an estimated $9.0 billion in 1993—representing nearly 11 percent of the total cash receipts for all U.S. farm crops. *Nursery and greenhouse crops in 1992 ranked 6th in total grower cash receipts among all farm commodities—ahead of such major crops as wheat, cotton and tobacco. Nursery and greenhouse crop production now ranks in the top 5 agricultural commodities in 23 States, and in the top 10 in 42 States. including Vermont.*

This impressive industry record of growth becomes even more so when one considers that unlike other segments of agriculture, the nursery industry does not receive—nor does it desire—any Federal subsidies or price supports. What we do want is for the unique nature of nursery crop production to be fully recognized as part of agriculture and for this recognition to be reflected appropriately in any reform of the Federal Crop Insurance Program.

NURSERY CROP PRODUCTION

Nursery crop production is a unique segment of agriculture, but it is agriculture nonetheless. Unlike farming operations of many of the "major" commodities, most nursery crops are not harvested in the same year in which they are planted. Moreover, although they may be planted at the same time, not all such nursery crops are then harvested at the same time.

As with other agricultural crops, nursery stock is generally planted in rows—either in the ground or in containers—and is cultivated by farm equipment similarly used by other farmers. Most nursery farms grow hundreds of different varieties of plant species which often require individual attention, so the labor activity can be more intensive than other agricultural crops. As an example of the unique nature of growing nursery plants, let's examine the production of ornamental evergreen trees. Some types of evergreens are first propagated from cuttings in a greenhouse. Others are propagated from seed. After several months in the greenhouse, the rooted cuttings (some of which may be sold to other nursery farms) are planted in beds, usually for 2 more years. These 3-year-old cuttings (some of which again may be sold to other nursery farms) are then transplanted in fields or in other containers and cultivated for as many as four or five additional years until the trees begin reaching various marketable sizes. As other examples, rhododendrens may be grown for 4 to 6 years or more before they reach marketable sizes, and landscape specimen shade trees may be grown for 10 years or more.

Seldom does a nursery farmer sell an entire "crop" in any given year. For example, evergreens planted in the field at the same time will not contain trees of uniform size. This is due, in part, to each plant's individual rate of growth, or perhaps to variations in soil quality in different parts of the field. As a result, when a nursery grower receives an order from a retail garden center or a landscape firm for ornamental evergreens of a given size, the order may be filled out of several fields of trees of varying ages.

As with other agricultural commodities, nursery crops are subject to insects, pests, and diseases. Unlike most other agricultural crops, nursery plants are often shipped with soil attached. Since soil increases the likelihood of harboring pests, a variety of Federal and State certification and quarantine shipping requirements are imposed on nursery growers to prevent the spread of such pests to other agricultural crops even when such pests are not directly injurious to nursery plants.

THE FEDERAL CROP INSURANCE SYSTEM NEEDS TO BE OVERHAULED

Since many nursery crops often take several years in the field before they are ready for harvest, nursery farmers endure wide weather swings and patterns over a multiyear period. In any given year, nurserymen may lose farmgate sales of tens of millions of dollars in plant material destroyed by the vagaries of nature.

Nursery farmers traditionally absorb these losses and treat them as costs of conducting business. The weather patterns of freezes and droughts are often unpredictable. The toll is obviously heavier and more costly in some years than in others. As noted earlier, the nursery industry does not receive any Federal production subsidies or price supports, and we desire as little government interference as possible. In turn, nursery farmers have historically not looked to the Federal Government for direct Federal assistance.

Given the nursery industry's strong and continuing aversion to turning to the Federal Government for direct financial assistance, there is, nonetheless, an important mechanism by which the Federal Government can partner with the nursery industry. It is one in which the nursery industry, and the rest of agriculture, could pay its fair share. AAN recommends that the availability of Federal crop insurance be broadened to all agricultural crops, and that its purchase by farmers be made more economical.

We are pleased that H.R. 4217, the "Federal Crop Insurance Reform Act of 1994," introduced on April 14, 1994 by House Agriculture Committee Chairman Kika de la Garza and the Chairman of this subcommittee, Rep. Tim Johnson (D-SD), largely embraces AAN's position.

The availability of Federal crop insurance to the nursery industry is severely limited. In part, this is due to the often multiyear production periods for most nursery crops, as well as the tremendous diversity of nursery crops. Even in those limited instances where crop insurance is available to nursery farmers, the premiums are excessive and unaffordable. By universally broadening Federal crop insurance to all agricultural crops, costs can be pooled and risks can be spread more effectively. Only when Federal crop insurance is available to nonprogram crops, such as container and field-grown nursery crops, will the insurance system succeed in attracting a sufficient pool of farmers and growers so that costs can be spread more widely and the premiums can be more economical.

Current USDA Disaster Assistance Programs can unintentionally reward marginal farmers who, if only they were to change some of their management practices, could mitigate or even avert some of their crop losses. By the same token, current USDA disaster programs are often off-limits to strong and innovative farmers who make investments in their operations (such as implementing irrigation systems to combat droughts) in often successful efforts to minimize crop losses. Federal crop insurance premiums could reflect such investments and management practices.

Crop insurance for nonprogram crops would strengthen the financial position of the insured in dealing with freezes, droughts, and other reasonably anticipated and periodic weather swings and patterns. Crop insurance can act as collateral on loans, and lowers the risk factor enabling lenders to offer better terms or larger loans.

Universally broadening the Federal Crop Insurance System to all agricultural crops, and making such more economical, would present potential budgetary savings. It would mitigate the need for Congress to continuously find itself year-in and year-out having to appropriate huge sums of Federal dollars to USDA disaster assistance programs, which, unfortunately, have often been outright grants to marginal agricultural producers.

AAN strongly urges Congress to pursue the goal of universally broadening the availability of Federal crop insurance to all agricultural producers for all crops, and making the premiums more economical. H.R. 4217 is a positive first step in this direction. AAN recommends that an overhauled Federal crop insurance system should cover reasonably anticipated weather swings and patterns (such as freezes and droughts) which damage or destroy agricultural crops. In so doing, USDA disaster assistance programs could then be revamped to help restore farmers' lost income due to catastrophic disasters, such as 1992's *Hurricane Andrew* or last summer's severe Midwest floods, for which crop losses could not be averted no matter what precautions are implemented by farmers.

LEGISLATION MUST BE AMENDED TO EXPLICITLY COVER NURSERY CROPS

AAN understands that nursery crops—both container and field-grown—are included on the official crop expansion feasibility study list for the development of new crop insurance programs. AAN applauds this review of container and field-grown nursery crops for inclusion as "eligible crops." At the same time, though, we are deeply disturbed that section 4 of H.R. 4217 (which proposes a noninsured assistance program for crops for which catastrophic risk insurance is not available) is limited to food and fiber crop production. We are concerned that if such limiting language is included in any final legislation, it will work against the insurance eligibility of nursery crops.

Since nursery crops are neither food nor fiber, the proposed eligibility coverage in section 4 of H.R. 4217 effectively excludes nursery farms or production nurseries—creating a wholly inappropriate and artificial wedge between the nursery industry and the rest of American agriculture. Legislation must be amended to explicitly cover nursery crops (and other nonfood or fiber crops, such as sod) as eligible for insurance.

Conclusion

Mr. Chairman, AAN deeply appreciates this opportunity to share our thoughts about reforming the Federal Crop Insurance Program in general. We hope Congress will work to overhaul the Federal Crop Insurance System by universally broadening its availability to all agricultural crops, including nursery plants and trees, and by making the purchase of crop insurance by farmers more economical.

AAN also urges that crop insurance premiums reflect the investments and management practices made by strong and innovative farmers to mitigate their crop losses. By overhauling the Federal Crop Insurance System, USDA disaster assistance programs could be revamped to help restore farmers' lost income due to truly catastrophic disasters, for which crop losses could not be averted no matter what precautions are implemented by farmers.

As always, Mr. Chairman, AAN is willing and ready to work with you, the Members of this subcommittee, the Federal Crop Insurance Corporation, and USDA to make the Federal Crop Insurance System more equitable and available to nursery farmers. Thank you.

SENATORS' QUESTIONS PRESENTED TO THE WITNESSES AND RESPONSES THERETO

Senator Leahy's Questions

Reference. The adoption of new or innovative farming practices that are more environmentally sound may, at least in the short-term, increase the risk of yield losses. Innovative nutrient management technologies such as the late-spring-soil nitrogen test or crop tissue tests, for example, can substantially increase the efficiency of fertilizers, but require the farmer to delay applying fertilizer until the crop is up. If weather prevents access to the fields to apply fertilizer after the test results are in, yields may suffer.

Waiting to apply pesticides until pest scouting indicates that pest populations are near their economic threshold allows farmers to apply pesticides only when they are need, but there is the risk of yield losses if weather or other factors prevent application of the pesticide when it is needed.

I understand that a program in California already offers farmers insurance if they substitute Bt, a biological insecticide, for the conventional insecticide they would otherwise use.

Question 1. How can we make better use of such an approach to help farmers manage the risk of adopting new technologies?

Response. We are awaiting the results of the California project in order to evaluate whether the practice can simply be insured under the terms and conditions of the canning and processing tomato policy. Our current concern is to ensure that our programs accommodate proven and acceptable integrated pest management practices. There are other projects which could be considered depending on available funding. One area we will be exploring is how FCIC could provide incentives for producers to adopt environmentally sound farming practices. Our Research and Evaluation Division and Regional Service Offices will explore several possibilities to determine the most effective means to accomplish this task.

Senator Lugar's Questions

Reference. I would like to compare crop loss protection provided by the current system with that under the Reform Proposal against several different weather events, the 1988 Drought, the 1939 Drought, and the 1993 Flood/Drought. Assuming these weather events:

Question 1. How many farmers received disaster payments/crop insurance indemnity payments and in what amounts? How many farmers would have received indemnity payments/area triggered disaster payments under the reform proposal and in what amounts?

Response. The information provided analyzes only crop insurance indemnity payments, not disaster payments. Analysis on disaster payments will be submitted very soon.

Provided, for the record, are the actual numbers of crop insurance contracts for each of these specific 3 years (one contract is one crop), numbers of contracts with losses, the total value of the insurance in force (actual crop value multiplied by the coverage level percentage), and the amount of indemnities. This information is provided by State by county by crop. This information has been recalculated at the 50 percent coverage level and 60-percent price election. This provides a comprehensive assessment of the portion of the farming population that purchased crop insurance based on existing unit structure in those years.

For example, 21,991 crop policies were issued in the State of Indiana in 1993. (Fewer farmers purchased insurance because some bought insurance on multiple crops). Under the business as sold, 2,602 crop policies were paid a loss. Total payments were approximately $9.4 million. One or more units on 1,699 of those policies had yield losses exceeding 50 percent. Payments to those units would have amounted to about $2.6 million. Total payments and the number of contracts indemnified will be less when the alternative set of assumptions is analyzed. A printout of data that supports this information will be provided.

Reference. I would like the above information by farm and by crop at the State and county level. Provide the reform estimates under three scenarios (low, medium, and high) of farmer participation in buy-up coverage.

Question 2. Finally, what are budget expenditures under these two policy approaches? (Please include administrative expenses along with payments net of farmer paid premiums/fees.)

Response. 1993 crop year data are attached.[1] For 1993, FCIC insured 83.8 million net acres, about one-third of the estimated 251.2 million acres potential included in the crop insurance baseline. Net farmer benefits (indemnities minus farmer paid premiums) were approximately $1,120 million, which includes the premium subsidy to the farmer. Administrative reimbursements to insurers (assuming 100 percent sales through the reinsured delivery system) would be about $300 million (including FCIC's salaries and expenses). A medium scenario would place participation in the buy-up coverage at about 43 percent. Net farmer benefits for this scenario would be approximately $1,450 million with delivery expenses of about $375 million. A high participation scenario would place participation at about 53 percent. Net farmer benefits would be $1,800 million with delivery expenses of about $450 million. Crop losses in 1993 were extensive. Net outlays would be much lower in most years.

Reference. Historically, ad hoc disaster payments for program crops have been based on ASCS program yields, while crop insurance indemnity payments are based on FCIC yields.

Question 3. How do these yields compare by State and county for all of the program crops? Please provide this data on 3.5″ high density diskettes in Lotus 3.1 (or lower) spreadsheet format.

Response. We have attached a 3.5″ high density diskette with Lotus 3.1 spreadsheets containing this data.[2] The data indicate the average yield that was insured by FCIC by county and crop and the average ASCS yield for the same insured units. Not all insured units are included because the ASCS yield was not available for all insured units.[3]

Reference. Even with the $1 billion-per-year farm program baseline adjustment, CBO says the administration's bill will raise direct spending by $711 million in budget authority and $362 million in outlays over 5 years.

Question 4. How do you propose to change the proposal to make it budget neutral?

Response. CBO currently estimates a $300 million savings in outlays over a 5-year period. The figures you refer to assume that the expense reimbursement to companies, which is currently subject to appropriations, would be scored to the Reform bill without a corresponding discretionary cap adjustment. The administration did not propose that expense reimbursements be shifted to mandatory from discretionary spending without a corresponding discretionary cap adjustment.

Reference. The administration's bill would give FCIC permanent unlimited use of Treasury funds to pay virtually all FCIC costs. This would allow FCIC to make unlimited use of Treasury funds to pay administrative reimbursements to insurance companies. As a result, these reimbursements would no longer be subject to the discipline of the annual appropriations process. In addition, CBO says this authority will increase the direct spending in the Reform bill by $852 million in budget authority and $714 million in outlays over the next 5 years.

Question 5. What is the justification for doing this?

Response. Again, this CBO estimate assumes no discretionary cap adjustment as existing discretionary spending is shifted to mandatory spending. The administration's bill assumes a discretionary cap adjustment and CBO has revised its scoring of the administration's bill to reflect this. Moreover, the administration believes that the Congress will have as much oversight over this program as it has under present law. The provision of the Reform Proposal would give FCIC permanent authority to use Federal funds, in such sums as necessary, to pay certain costs, including delivery costs similar to existing authority, to borrow from the Commodity Credit Corporation.

The administration's proposal would shift expense reimbursements to companies to mandatory spending because expense reimbursements are calculated as a percent of premium. While the administration and CBO have estimated expected premium levels over the 5-year period, farmer response under the reform proposal is difficult to predict. Shifting expense reimbursements to mandatory spending will allow the

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[1] See page 54.
[2] Retained in Committee files.
[3] See pages 55 and 56.

program to operate with greater flexibility. For example, FCIC might project that 40 percent of eligible acres will be enrolled in the buy-up coverage in fiscal year 1996 and that associated premiums will be $1.2 billion. This projection would be the basis of its budget request for the fiscal year. If, instead, 45 percent of eligible acres are enrolled and premiums are $1.35 billion, FCIC would have no authority to make the additional payments because insufficient funds would have been appropriated. The voluntary nature of enrollment in the buy-up coverage and the vagaries of farmer's decisions from year to year are not consistent with the annual appropriations process even under the existing program. The administration is willing to consider alternatives that provide flexibility to meet unforeseeable increases in business volume in any year.

There are essentially three elements that drive the costs for this program: acres enrolled, projected market prices for agricultural commodities, and premium rates. The administration's costs for the proposal are based upon expectations that a high percentage of eligible acres will be enrolled immediately in the catastrophic program, and that the potential market for buy-up coverage likely will be saturated by the end of the first 5 years. Future prices of agricultural commodities are not expected to increase sharply from current levels. Thus, the potential for excessive future growth in obligations stimulated by these two sources seems limited. Premium rates have two effects upon program costs: (1) each dollar of added premium increases outlays for direct premium subsidy and for delivery expenses by about 65–70 cents, and (2) each added dollar of premium for a fixed acreage base reduces excess losses by 1 dollar or adds 1 dollar to program reserves. Costs are projected to increase rather sharply in the first years of the reform because more acres are enrolled and premium rates are increasing as needed to achieve actuarial sufficiency. However, this rate of growth in outlays is not indicative of the longer term because the majority of the eligible acres will be enrolled and premium rates should stabilize in the out years.

Reference. Most agricultural economists, who have studied the issue, say the buy-up subsidies will not increase farmer purchases of crop insurance very much. The economists say econometric evidence suggests that farmer response in inelastic—that a 17-percent reduction in premium subsidies would increase farmer participation by less in percentage terms. The administration estimates buy-up purchases will rise from about 33 percent to 53 percent of insurable acreage over the next 5 years, an increase of nearly 61 percent.

Question 6. Why does the administration estimate believe such a large response is likely?

Response. Studies of the type mentioned in the question typically are based on a principle called *ceteris paribus* by economists—*i.e.*, all other things remaining equal. All other things do not remain equal in this proposal. In particular, greater uncertainty with regard to availability of ad hoc disaster programs represents a change from the status quo. Inelasticity of demand as reported by these studies may result from expectations of disaster assistance in extreme circumstances. Breaking or reducing these expectations could affect the estimates of the elasticity of demand.

Participation was in the low to mid-40-percent level following the 1988 disaster. Thus, an increase to the low 50-percent range is not as dramatic an increase as is inferred by the comparison to current participation. Current participation very well may have declined as a result of the Ad hoc Disaster Program enacted in 1990.

Question 7. If the administration is wrong and the economists are right, won't future ad hoc assistance bills be more likely?

Response. The catastrophic level of coverage under the proposal is intended to provide protection that is equivalent to current ad hoc programs in the event of a total disaster. It is more than competitive with current programs at the 50.04-percent prorate of benefits, and can be very comparable with those programs at the 100 percent prorate—especially when deficiency payments are large. Thus, the administration believes the proposal provides ample protection in the event of severe disasters.

Relatively high participation in the buy-up coverage is desirable to avert ad hoc disaster programs for shallow disasters—those that are a mile wide and an inch deep. Many persons are affected but the average loss is not substantial. The proposal does not compensate the producer until loss of production exceeds 50 percent. Thus, farmers would absorb losses from that level to the 60- or 65-percent levels that now are covered under ad hoc disasters unless they elected to protect those losses by buying higher levels of coverage.

Question 8. Why does the administration's proposal include payments for quality losses as part of the catastrophic coverage? How are quality losses calculated and how much will they add to the cost of the coverage?

Response. Current multiple peril crop insurance policies include provisions for the adjustment of production due to poor quality. Catastrophic coverage will be similar to current multiple peril crop insurance policies offered today. Adjustments to crop production for quality deficiencies are triggered by certain thresholds as identified by each crop policy (*e.g.*, corn with moisture over 40 percent; test weight below 49 pounds per bushel; or kernel damage more than 10 percent if eligible for quality adjustment). Once a crop is eligible for quality adjustment, the mature crop production is generally adjusted by dividing the value per bushel of the damaged crop by the price for undamaged crop (for corn, U.S. No. 2).

Adjustments to production due to quality deficiencies generally occur during years of extreme weather conditions and, therefore, are not a predominant part of the losses paid for crop failure. Current rating methodology accounts for these losses, therefore, providing quality adjustment for catastrophic coverage does not significantly affect the cost of the coverage.

Reference. Under the reform proposal, FCIC would offer catastrophic yield coverage to farmers of all FCIC insurable crops. However, FCIC coverage for many crops does not extend to all States and counties where the crop is produced.

Question 9. Does this mean that producers of those crops in those areas would have to rely on area triggered disaster payments as their only protection? (Please provide a list of all the crops FCIC insures by State and county.)

Response. Yes. The standing Disaster Program triggered on an area basis would provide protection to farmers. However, this is surer than the status quo because such producers will qualify whenever their area suffers a major loss. Presently, a wide spread disaster affecting major crops often is the trigger for assistance to farmers who produce insurable crops. According to a recent General Accounting Office (GAO) study, FCIC has standing insurance programs covering 91 percent of the value of disaster payments made on all the crops currently insured over the period 1988–93.

Reference. The sharing of underwriting risk between FCIC and insurance companies is based on reinsurance agreements that are renegotiated periodically.

Question 10. How much of loss is currently born by the companies?

Response. The Standard Reinsurance Agreement (SRA) between FCIC and private insurers, uses both proportional (quota share) and nonproportional (stop loss) reinsurance to allocate MPCI underwriting gains and losses by State by reinsurance fund. The SRA has three (3) reinsurance funds (Assigned Risk, Developmental, and Commercial) in which an insurer may designate a policy depending on the amount of premium and potential loss the insurer wishes to retain. The insurer's reinsurance loss is calculated by fund for each State, with the total of all States being the insurer's total underwriting gain or loss. The maximum possible underwriting loss exposure in the 1994 SRA for $1.00 of retained premium is $1.10 in the Assigned Risk Fund, $1.32 in the Developmental Fund, and $1.75 in the Commercial Fund.

Reference. As I understand it, FCIC premium rates do not currently include expense reimbursements to companies. The Reform bill would "restructure" premium rates to reflect both direct premium subsidies and the insurers expense reimbursement allowance.

Question 11. What does this mean? Would total premium rates rise or would the subsidy portion rise without changing total premium rates?

Response. The actuarial documents published by FCIC contain both the base premium rate and the farmer paid premium rate. The base premium rate is the amount FCIC would charge the farmer if there were no subsidy. For example, if the base premium rate at the 65-percent coverage level is 7.0 percent, both that value and the value 4.9 percent (the farmer paid portion) are shown. Under the proposal, the 7.0-percent value would be increased to include the expense compensation. If that rate were 31 percent, the base rate would be increased to 9.2 percent (7.0 multiplied by 1.31). The farmer paid rate would decline to approximately 4.1 percent due to the higher premium subsidy under the proposal. This method of calculation more accurately reflects the true Government subsidy but does not increase the Government outlay.

Senator Cochran's Questions

Reference. I have introduced legislation (S. 1879) to provide disaster assistance for damage suffered from a severe storm of freezing rain and ice. In February of this year, this storm caused extensive damage to millions of acres of commercial orchards and timber. Severe damage was incurred on 3.7 million acres of forestland in the northern one-third of the States and included both young pine plantations and mature pine and hardwood timber.

Question 1. Under the administration's Crop Insurance Reform Plan, is there any provision which would provide assistance to commercial timber producers?

Response. The administration's Crop Insurance Reform Proposal, section 508 (a) Authority to offer insurance, provides that the Corporation may insure or provide reinsurance for producers of agricultural commodities adapted to the growing area and where there is sufficient actuarial data available to formulate an actuarially sound rate for crop insurance. Agricultural commodity is defined in section 518, and does include timber and forests. However, FCIC does not currently have a commercial timber policy available to producers.

Reference. The administration's Crop Insurance Reform Proposal provides that crops not currently covered by crop insurance will be provided basic catastrophic coverage with payments triggered by area-wide loss levels. Crop insurance is currently available for only 50 crops nationwide, though not necessarily in every State or county.

Question 2. In the administration's plan, why are crop that are currently covered by crop insurance protected on an area basis, rather than an individual crop loss basis?

Response. The Noninsured Assistance Program only covers crops not covered by crop insurance. Crops covered by crop insurance can be protected on an individual basis, however, producers of crops not covered by crop insurance or in counties which do not have an actuarial structure will have protection on an individual basis if an area loss triggers coverage. Protection will not be available unless the area average production falls below 65 percent of normal. The producer's loss will be based on their own individual average production. The use of the area average yield to trigger implementation of the Noninsured Assistance Program was intended to provide similar benefits to those which are currently provided through ad hoc disaster assistance programs. Under the administration's proposal the Noninsured Assistance Program would not require congressional action. We do not feel that sufficient actuarial data exists to offer this coverage on a primarily individual basis. Therefore, area coverage is the alternative the administration chose to provide protection to noninsured crops.

Question 3. Does this mean that a blueberry farmer in south Mississippi whose crop is wiped out due to adverse weather is not eligible for assistance under this plan, if his county average yield exceeds the loss threshold?

Response. Yes, however that producer with an individual loss has not been covered by any ad hoc disaster program offer unless emergency appropriations are provided by Congress. The Noninsured Assistant Program is designed to assist in the event of an area-wide disaster similar to the conditions which would require congressional action under authorities of the current Disaster Assistance Program. The primary difference between the current ad hoc disaster relief programs and the proposed Noninsured Assistance Program is that the administration's proposal is less restrictive and provides a more timely response to a disaster. However, if the area average production for the crop does not fall below 65 percent of the area yield, there would be no protection for the individual's loss within the area. The protection provided under the Noninsured Assistance Program would be equivalent to the average assistance provided by recent ad hoc disaster programs. The administration believes that the Noninsured Assistant Program will be more effective and responsive to producer's losses than the present ad hoc coverage which depends on congressional action each time a disaster occurs.

Question 4. If no crop insurance is available for a crop and the area yield loss is not met, are there any alternatives other than direct congressional disaster assistance, which the administration's plan would make more difficult to obtain?

Response. The Noninsured Assistance Program provisions of the administration's proposal were established to provide protection to producers of commodities with no crop insurance available. It provides protection equivalent to catastrophic risk coverage and ad hoc disaster assistance programs. The protection is triggered when the county, or other defined area, average production for that crop falls below

65 percent of the average yield. The Noninsured Assistance Program would not require a multistate disaster to generate the necessary support to implement disaster assistance. However, if the area average production for the crop does not fall below 65 percent of the area yield, there would be no protection for the individual's loss within the area. Under the Ad hoc Disaster Assistance Programs, there is no protection for the individual's loss if congressional action is not taken.

Question 5. What is the timetable for approving the 26 new crops for inclusion in the Federal Crop Insurance Program? (These crops include blueberries, pecans, sweet potatoes and watermelons).

Response. The Federal Crop Insurance Corporation (FCIC) is currently evaluating 26 new crops for possible inclusion in its insurance program. FCIC has arranged for the Economic Research Service to provide preliminary data on production, marketing, risk management, and other related information for these various crops. The delivery date for this information ranges through September 1995. Upon receipt of this information, FCIC will prepare an extensive risk management assessment that will determine whether a new crop is suitable for design of an insurance program. The feasibility data are scheduled to be delivered as follows:

Delivery Date	Feasible Data
February 1994	Blueberries
June 1994	Canola, carrots, celery, lettuce
September 1994	Asparagus, broccoli, cauliflower, sweet potatoes
December 1994	Cantaloupes, honeydew, strawberries, watermelons
April 1995	Avocadoes, cherries-sweet, mushrooms, in-ground nursery crops, and pistachios
September 1995	Hay, hops, peppermint, pineapple, seed-forage, seed-lawn, and spearmint

Once these preliminary data are received, a comprehensive risk management analysis can be developed. With the completion of a favorable risk analysis and given current workloads, FCIC anticipates that programs could be available for either a pilot or standing program as follows:

Data	Crop Year
Blueberries	1995 crop year
Canola	1995 crop year
Mushrooms	1996 crop year
Celery	1996 crop year
Asparagus	1996 crop year
Carrots	1996 crop year
FL Citrus Trees	1996 crop year
Lettuce	1996 crop year
Pecans	1996 crop year
Pistachios	1997 crop year
Cantaloupes	1997 crop year
Sweet potatoes	1997 crop year
Broccoli	1997 crop year
Nursery in-ground	1997 crop year
Sweet Cheeries	1997 crop year
Avocadoes	1997 crop year
Honeydews	1997 crop year
Strawberries	1997 crop year
Cauliflower	1997 crop year
Watermelons	1997 crop year
Forage seed	1998 crop year
Hops	1998 crop year
Peppermint	1998 crop year
Hay	1998 crop year

Data	Crop Year
Spearmint	1998 crop year
Lawn seed	1998 crop year
Pineapple	1998 crop year

Reference. The administration's plan shifts appropriations for crop insurance from discretionary spending (with ag appropriations oversight) to mandatory/entitlement spending. It will allow the Federal Crop Insurance Corporation to access directly from the Treasury such funds as are necessary to fund the program.

Question 6. How would the administration's Crop Insurance Proposal be scored under current scorekeeping conventions, if agreed to by Congress and the administration?

Response. The administration's scoring of this proposal is reflected in the President's 1995 Budget. This scoring shows that the proposal would save approximately $750 million over the next 5 years, based on a cost of about $8.1 billion for the proposal compared to $8.9 billion for continuing the current Crop Insurance Program and having to rely on ad hoc disaster assistance of about $1 billion annually. About $350 million of the savings would occur in fiscal year 1995. In each succeeding year, it is assumed that participation, particularly in the buy-up portion of the proposal program, will rise, increasing costs accordingly. By fiscal year 1999, the cost of the proposal is actually slightly higher than that of the current program, will rise, increasing costs accordingly.

We understand that the Congressional Budget Office (CBO) is in the process of producing its scoring of the proposal. We anticipate that there will be some differences with regard to assumptions relating to participation, loss ratios, and other program parameters that affect cost. Further, there may be matters of interpretation with regard to scoring of certain delivery expenses.

We will, of course, continue to work with the Congress and with CBO on the scoring of this proposal.

Question 7. What impact would this proposal have in the direct spending under the jurisdiction of the Agriculture Committee?

Response. According to the administration's scoring of the proposal, direct spending under the jurisdiction of the Agriculture Committee would account for about $7.7 billion of the $8.1 billion in total 5-year cost of the proposal. This compares to about $2.2 billion in the baseline for the current Crop Insurance Program and $5.0 billion in emergency spending for ad hoc disaster assistance. The difference reflects both a shift in crop insurance delivery expenses that are currently scored as discretionary spending under the jurisdiction of the Appropriations Committee, and the savings in overall cost.

Question 8. What impact would this proposal have in appropriations requirements, both mandatory and discretionary?

Response. According to the administration's scoring of the proposal, discretionary spending would decline by about $220 million annually. This decline reflects the shift in delivery expenses to mandatory spending. The proposal provides permanent authority for all mandatory spending. In other words, no appropriations would be necessary for such spending. FCIC's own administrative expenses would remain as discretionary spending which require appropriations.

Reference. As you know, discretionary spending, subject to annual appropriations, is easier to control than mandatory and entitlement spending.

Question 9. What controls will there be in the future cost of this Crop Insurance Proposal, since it will create a permanent mandatory spending requirement?

Response. The current Federal Crop Insurance Program contains a permanent mandatory spending requirement with regard to premium subsidies. Under both the current program and the proposal, spending for premium subsidy depends upon the degree to which farmers choose to participate in the program. The amount of this entitlement is defined in the proposed law, just as it is in the current law. Costs will be higher than under current law because more acreage is expected to be insured and the subsidy is somewhat greater. The maximum outlay for this subsidy will depend upon the premium rates established to achieve actuarial soundness, total insured acreage, and future prices and yields of agricultural commodities.

Based upon experience with these variables, excessive growth in outlays in the out years is not to be anticipated.

The other component of the mandatory spending is not new. It represents only the movement of administrative expense reimbursements to insurance companies from the discretionary to the mandatory account. The proposal does not specify any rate of compensation for payment of administrative reimbursements to insurance companies. Reimbursement of Reinsured Company's administrative expenses is an administrative determination made by FCIC, same as under present law. In the 1995 Appropriations Act, Congress limited the reimbursement rate to 31 percent which is reflected in our budget estimates for implementing the Reform proposal. In other words, we plan to continue limiting the reimbursement rate to 31 percent. The administration believes that the Congress will have as much oversight over this administrative determination as it has under present law.

The expense items are established by the terms of the Act. The Corporation may only reimburse for administrative expenses. The coverage is limited to a percent of yield. Only the amount and extent of participation is unknown and that is the factor that makes funding by advance appropriation so unworkable.

There are essentially three engines that drive the costs for this program: acres enrolled, market prices for agricultural commodities, and premium rates. The administration's costs for the proposal are based upon expectations that a high percentage of eligible acres will be enrolled immediately in the catastrophic program, and that the potential market for buy-up coverage likely will be saturated by the end of the first 5 years. Future prices of agricultural commodities are not expected to increase sharply from current levels. Thus, the potential for excessive future growth in entitlement stimulated by these two sources seems limited. Premium rates have two effects upon program costs: (1) each dollar of added premium increases outlays for direct premium subsidy and for delivery expenses by about 65–70 cents, and (2) each added dollar of premium for a fixed acreage base reduces excess losses by 1 dollar or adds 1 dollar to program reserves. Costs are projected to increase rather sharply in the first years of the reform because more acres are enrolled and premium rates are increasing as needed to achieve actuarial sufficiency. However, this rate of growth in outlays is not indicative of the longer term because the majority of the eligible acres will be enrolled and premium rates should stabilize in the out years.

Question 10. Some organizations are strongly opposed to mandating participation in any program. What participation rate do you project for program crops and nonprogram crops under this proposal?

Response. The administration has not separately estimated participation by category of crop. Enrollment in the catastrophic level of coverage is a condition of eligibility to obtain benefits under other agricultural programs; thus, the administration expects total participation for program crops to meet or exceed the signup for those programs. The reform proposal further requires the producer to enroll all crops constituting at least 10 percent of the total expected crop income of that farmer. Since most farmers grow both program and nonprogram crops, a high percentage of nonprogram crops also should be enrolled. Overall, the administration expects participation to reach 80 percent of insurable acreage, up from 33 percent today.

Question 11. Is the point of increased participation to reduce the demand for ad hoc disaster or to reduce loss ratios in current FCIC programs?

Response. The point of increased participation is clearly to reduce the demand for ad hoc disaster. Despite the Crop Insurance Program's $900 million-per-year price tag, Congress has adopted ad hoc disaster bills in 8 out of last 8 years at an average cost of $1 billion per year. Farmers fail to buy crop insurance thinking they will be bailed out in time of crisis.

For farmers, disaster bills are uncertain. In a crisis, their aid depends on national politics. Victims of local disasters often get less than those of wider disasters, even though individual farmers suffer just as much. This uncertainty is also bad for taxpayers. Public concerns over disaster payments to farmers who could have purchased subsidized crop insurance and failed to do so cast a political cloud over the process. It only seems proper to establish a subsidized risk management program wherein the program recipients pay for part of their coverage as opposed to the totally taxpayer funded ad hoc disaster programs.

The legislation links crop insurance with other farm programs and Farmers' Home Administration (FmHA) loans. With this linkage, crop insurance participation should top 80 percent of insurable acres. Without linkage, participation would be less, potentially weakening the overall credibility of the proposal as a means for replacing future ad hoc disaster bills.

Although the intent of increased participation is to reduce the demand for ad hoc disaster the results are expected to be favorable for the loss ratio due to the increased spread of risk created by the higher participation levels.

Question 12. Will increased participation at the proposed buy-up levels reduce loss ratios?

Response. The exact impact of the increased participation at the proposed buy-up levels is unknown. However, we believe that higher participation in the higher levels of coverage would lead to lower premiums and a lower loss ratio over the long term. The current premium rating structure is based on the assumption that the loss ratios at all levels will be equal over an extended time period. However, any change in loss ratios are correlated with the change in the population of insureds buying the product or due to variations in the yearly experience across all insureds. Therefore, if the newly insured group is statistically different than those that currently purchase insurance, the loss ratios will change.

Question 13. If participation is lower than your projection, what impact will that have on your estimates of the cost of delivering and operating the program?

Response. Assuming that the total participation remains 80 percent or more due to linkage, each percentage point lower participation per year in the buy-up coverages reduces total estimated outlays over the first 5 years by about $70 million. Transferring those acres from the buy-up coverage to the catastrophic level saves only the incremental amount of the premium subsidy (*i.e.*, the difference between the 60 percent and 75 percent of price subsidy rate) and the delivery expenses associated with the buy-up premium. Assuming that participation in both the catastrophic coverage and the buy-up coverage each decline by one percentage point each year (*i.e.*, two percentage points total decline) reduces estimated outlays by about $170 million for the first 5 years.

Reference. The administration allows a dual delivery system: Farm Service Agency (FSA) and private insurance companies may provide catastrophic coverage at the farmers' discretion. Private insurers will be allowed to provide additional coverage at higher levels.

Question 14. Are there any circumstances under which the administration would not strongly support a dual delivery system?

Response. No. The administration views the dual delivery system as being essential for the broad coverage needed to deliver the crop insurance and catastrophic relief coverage nationwide. The dual delivery system is also in keeping with the one-stop shopping system for agricultural programs which the administration supports.

Reference. The administration's proposal provides basic catastrophic coverage at 50-percent yield and 60-percent price selection for program crops.

Question 15. Since many farmers will be interested in purchasing additional coverage at higher levels, how will the cost of higher levels of coverage compare to current costs?

Response. Assuming constant premium rates, the farmer's out-of-pocket cost would decline by about 17 percent at the 65-percent coverage level and by about 8 percent at the 75-percent coverage level. For example, a farmer who now pays $5-per-acre to insure a crop at the 65-percent coverage level would pay about $4.15 under the reform. If the current cost of 75-percent coverage to the farmer was $8-per-acre, the cost under the proposal would be $7.36. As premium rates change to reflect insurance experience in an area, these reductions must be stated with regard to the amount that otherwise would be payable by the farmer. For example, if FCIC found it necessary to increase the premium rate for 65-percent coverage by 15 percent, the farmer would save only 2 percent compared to the previous year, but 17-percent compared with the amount that otherwise would be payable under the high premium rates.

Question 16. If the basic coverage were established at a level of 50/50 instead of 50/60, would this provide sufficient funds to make it possible to price higher levels of coverage at more attractive rates compared to current prices?

Response. Reducing the basic coverage to a level of 50-percent yield/50-percent price would reduce estimated costs by about $275 million for the first 5 years. This would permit an increase in subsidy for the buy-up coverage from an average of about 40 percent of premium to about 44 percent of premium.

Question 17. What are the estimated costs for the FSA to deliver crop insurance policies?

Response. It is difficult to accurately project the exact costs associated with the new Crop Insurance Reform Program because participation rates are difficult to predict and additional start up costs may be necessary before the program is operating at optimum levels. The Fiscal Year 1995 President's Budget requested $330,188,000 for delivery expenses for activities handled by reinsured companies. In addition, ASCS expects to fully use $40 million in producer service fees for handling 800,000 basic catastrophic insurance policies. Discussions are ongoing between FCIC and ASCS concerning the nature of field operations.

Question 18. What other costs do you anticipate the FSA to incur to provide necessary support services for the Crop Insurance Program?

Response. New equipment may be necessary for local county USDA offices depending upon the delivery mechanism chosen to administer the Crop Insurance Reform. There are no funds in the 1995 Infoshare budget dedicated to the delivery of the new Crop Insurance Program, therefore, any future automated data processing needs related to crop insurance reform will be accommodated within funds currently available to Infoshare. Existing automation systems are being reviewed to determine their adequacy and capabilities.

Question 19. Does the budget estimate include adequate funds to reimburse the FSA for expenses incurred in connection with the Crop Insurance Program?

Response. FCIC currently has sufficient funds budgeted to cover the delivery expenses.

Reference. The administration's proposal includes a processing fee of $50-per-crop-per-county, not to exceed $100 per farmer.

Question 20. In those cases where a crop is produced by the same farmer in multiple counties, how will the fee be calculated and how will losses be calculated?

Response. The fee is for processing the application and the grower will be required to submit an application for each county. Therefore, the grower will be charged $50 for each county. For instance, if a producer plants corn in four counties, he will pay a total of $200. Each of those four counties will be independent for the purpose of loss calculations.

Question 21. Will unit coverage be offered as an incentive to purchase additional coverage?

Response. Final decisions have not been made regarding the number of units that will be available under the catastrophic level of coverage. However, for the higher levels of coverage, unit structure will remain as flexible as it presently is.

Reference. Many producers are concerned that the $50 fee will quickly escalate.

Question 22. What is the total amount of revenue you project will be generated by the fee and bow will those revenues be used?

Response. The fee is expected to generate up to $40 million of total revenue in the first year. Fees paid to private insurers can be used to offset expenses in the delivery and service of crop insurance policies. Payments to the Department may be used to offset its similar expenses.

Question 23. Will it take a change in legislation to adjust the fee, or is there administrative authority to change the fee?

Response. Under the current proposed legislation, it would require legislation to adjust the fee; FCIC would not have the authority to administratively direct a change.

Reference. Currently ASCS and FCIC calculate actual and program yields differently and ASCS keeps records on the basis of a farming operation rather than per crop per county.

Question 24. Do you anticipate utilizing the FCIC method for calculating yields?

Response. Yes, yields will be calculated for both catastrophic coverage and buy-up coverage on the basis of FCIC's Actual Production History program which was modified to make improvements that became effective for the 1994 crop year.

Question 25. Are there other differences between FCIC and ASCS definitions and regulations that will have to be clarified?

Response. There are several areas that will need to be clarified, farm unit, entities, prevented planting, and reporting dates. ASCS defines a unit as consisting of one Farm Serial Number, under FCIC current program, there are numerous unit structures including shares, practices, section, or farm serial numbers.

Final decisions concerning the number of units under catastrophic coverage have not been made.

Currently ASCS does not recognize a verbal partnership as a farming entity. Under current FCIC procedures a verbal partnership is considered a legal entity. Currently ASCS will consider acreage that has been planted and failed as prevented planting under certain programs. Under FCIC's policy acreage which the producer was prevented from planting due to an insured peril occurring during the insurance period will be considered as prevented planting. ASCS dates for reporting planted acres as well as dates to sign up for program benefits are later than most dates for making application for insurance and reporting acreage for crop insurance purposes.

There are other areas of discrepancy between the two agencies. FCIC and ASCS are currently identifying and reconciling these differences.

Question 26. Since the FSA may be involved in the delivery of catastrophic coverage, how will its loss adjustment service be carried out?

Response. Loss adjustment service will be carried out similar to the way Federal Crop Insurance Corporation (FCIC) administers loss adjustment on policies written on Federal paper.

Producers electing catastrophic coverage through their local FSA offices will notify the FSA office when there is damage to the crop.

The Risk Management program will be created and administered within the FSA area by a Risk Management Specialist. The Specialist will be responsible for having available an adequate staff of loss adjusters under contract to carry out loss adjustment service in the area. Loss adjusters would be under contract to perform loss adjustment activities similar to what FCIC is now doing. It will not create problems if the FSA office covered multiple counties. FCIC utilized this system with supervisors responsible for loss adjustment activities in dozens of counties without any problems.

FCIC has a current listing of qualified loss adjusters who would be available to perform loss adjustment activities; however, there would be some increased cost associated with recruiting and/or training additional loss adjusters.

Question 27. Do you anticipate any role for FSA committees in administering the Crop Insurance Program?

Response. We have not identified all of the areas where we believe that FSA committees' involvement in the Crop Insurance Program would be beneficial. However, we do anticipate that the FSA committees will be actively involved in helping to administer the Crop Insurance Program, particularly at the State and local levels. For example, a major role for FSA committees would be to serve as an important source for local information, such as, uninsured crops that should be included in the program; crop conditions; instances of possible program abuse; and crop loss experience.

Reference. There is a perception among producers that there is widespread abuse in the Crop Insurance Program.

Question 28. How will the administration's proposal address the concerns that there are abuses in the program—particularly in loss adjustment?

Response. FCIC created a compliance division several years ago consisting of a headquarters office and six regional offices across the United States to identify and address program abuse. We plan to strengthen our compliance function and expand our reviews into areas where problems are known to exist. We also plan to focus on a team approach with the reinsured companies to attack program abuse.

While the administration's Crop Reform Proposal does not specifically target fraud and program abuse, we have many actions underway to address the problem. In order to reach our goal of a 1.0 loss ratio, we will work with the reinsured companies to ensure that controls over loss adjustment activities are strengthened. We plan to increase oversight of reinsured companies and place stronger emphasis on prevention and detection of program abuse and fraud.

Senator Craig's Questions

Reference. You estimate that the linkage provisions will result in participation increasing from the current 33 percent to 80 percent of insurable acres.

Question 1. How did you arrive at that estimate?

Response. The estimate of 80 percent is a consensus of departmental analysts regarding the normal level of participation in commodity programs. It is based on the requirement in the proposal that producers must enroll in the catastrophic level of protection as a condition of eligibility to receive Federal benefits under other agricultural commodity, price support and conservation programs in addition to FmHA loans.

Reference. Farm Bureau contends that the reason for the current low participation rate is the insurance product and suggests that by changing the product, it would make possible the program to exist as a voluntary program.

Question 2. How do you answer the Farm Bureau suggestion?

Response. There are numerous explanations regarding the reluctance of producers to purchase crop insurance on a voluntary basis and many, including the Farm Bureau's suggestion, are legitimate. FCIC is constantly reviewing the insurance products and their applicability to different geographic areas and growing conditions. Of specific importance is producer and producer association input to policy and procedure changes. Recent innovations include providing more flexibility to producers in defining the type and amount of coverage required for individual circumstances. These considerations include the ability to self-insure, individual current cash flow situation, misinformation regarding policy terms and conditions and the knowledge that a widespread disaster will be addressed by ad hoc disaster relief as enacted eight of the last 8 years.

In order to reduce producer pressure to enact ad hoc disaster, the administration's proposal requires a minimum of catastrophic risk protection for grower participation in many USDA farm programs. This linkage is critical to ensure adequate producer participation in the program. Even with the implementation of producer suggested changes, a significant number of producers would choose to waive the option of crop insurance for some other means of risk protection. The processing fee of $50 per crop not to exceed $100, does not represent a significant economic burden to the producers.

Reference. Uninsured crops will have a standing disaster program under your proposal. The list of insured crop in your information packet, summary data section, shows that the highest percent of crops value insured is corn at 19.493 percent and this goes down to the least percent value crops, temples, at .008 percent.

Question 3A. How many acres are uninsured? By crop and by county.

Response. The enclosed table, "1993 Uninsured Acres for Insured Crops," shows total uninsured acres by insured crop.[4] The enclosed map, "Insured Crop Programs, Number of Acres Uninsured (1992)," shows total uninsured acres by county. Also enclosed are tables for each county in Idaho showing uninsured acres by crop.[5]

Question 3B. You list the total dollar value percent at 75.736 percent when the highest single crop is 19.93 percent and it goes down from there. Is this an error?

Response. No, this is not an error. We currently offer insurance on crops with a total economic value of about $70.0 billion. This represents 75.736 percent of the total value of all crops grown in the country. Corn, with an economic value of $18.0 billion represents 19.493 percent of the total crop revenue produced in the country.

Question 3C. What would the payment rate be for some of the specific commodities by county such as dry peas in Latah County Idaho, or barley in Twin Falls County?

Response. For the 1994 crop year, the maximum price election for smooth green and yellow dry peas is $0.08 per pound. Thus, producers in Latah County who took the catastrophic coverage would receive 4.8 cents per pound for losses exceeding 50 percent of the individual's average yield. The maximum price election for barley is $1.90 per bushel. Sixty percent of the amount is $1.14 per bushel.

Question 3D. What will be the payment average for uninsured crops in relation to the insured crops?

Response. Producers of noninsured crops will be eligible for assistance once the area average yield, as determined by the Corporation, or an equivalent measure in the event yield data are not available, for that crop falls below 65 percent of the expected area yield.

Once the trigger yield is met, the producer will be paid at the same rate as the insured producer electing the catastrophic coverage plan. Payments will be made for losses greater than 50 percent of the individual established yield at 60 percent of the average market price, or any comparable coverage set by the Corporation.

[4] Retained in Committee files.
[5] Ibid.

Reference: As I understand it, the Nonstandard Classification System (NCS) is designed to apply to persons who had losses in nearly every year. The losses of those persons far exceeds paid premiums. NCS is intended to reduce the insurance guarantee and increase the premium rate for those individuals.

The Department of Agriculture Appropriations bill for fiscal year 1994 prohibited FCIC from using funds to pay premiums in counties where the loss ratio was greater than 1.10 more than 70 percent of the years that the crop had been insured in that county.

Your figures show that 3.6 percent of the active policies were included in this program in fiscal year 1994.

The methodology of implementing this requirement has two impacts that seem to discriminate against certain policyholders:

1. It penalizes those counties where FCIC coverage may not have been available but they have suffered a drought or some disaster over a period of years that adjusted their yields outside the norm.
2. Lets producers maintain lower rates who have not met the NCS standards individually but who happen to fall within a county that does not meet the standards.

Question 4A. How much was saved by this action with the 3.5 percent?

Response. NCS adjustments required under the Agriculture Rural Development, Food and Drug Administration and Related Agencies Appropriations Act, (Appropriation Act) (referred to modified NCS to distinguish it from NCS in nontarget counties) were implemented for the 1994 crop year. It will not be possible to assess the impact of the NCS program on affected insureds until the crop year has ended and all insurance data related to premiums and indemnities are available. For most crops, preliminary estimates can be expected by the end of calendar year 1994.

Reference. You were mandated to take this action in certain counties but were not prohibited from making this a uniform action nation-wide on an individual contract basis.

Question 4B. What would have been the savings if your action had been applied individually to all producers? Why did you choose not to take the action on an individual basis?

Response. At the time the Appropriation Act was enacted, standard NCS selections had already been completed and critical policyholder contract change dates had either passed or were near. Standard NCS selections had been made on a nationwide basis affecting the largest volume crops insured and the policyholders for those crops. FCIC had very limited time to properly notify producers that were affected by modified NCS, and refile actuarial documents; therefore, it was critical to take actions needed to comply with the Appropriations Act while not adversely affecting all areas. Had FCIC implemented the provisions on a nationwide basis for nonfailed bounties very minimal additional cost savings would have been realized due to the relatively small volume of insured policyholders represented for these crops in these counties.

Question 5. You indicated that the NCS program will be expanded for the 1995 crop year. How will it be expanded?

Response. The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) directed the FCIC to take steps necessary to improve actuarial soundness of the Federal crop Insurance Program and to achieve, by the fiscal year beginning October 1, 1995, a projected overall loss ratio that is not to exceed 1.10.

For the 1995 crop year FCIC is expanding the NCS process consistent with the intent of the Appropriations Act and OBRA 93. Initiatives are as follows:

1. Continue the standard NCS program on the 11 major crops in all counties included for the 1994 crop year.
2. Expand the NCS program to *all applicable crops* for the 1995 crop year as indicated below.

Notification requirements specified by NCS regulations for insureds subject to NCS adjustment cannot be met for some crops. Expansion to these crops is scheduled for the 1996 crop year.

1995 Crop year	1996 Crop year	Excluded crops
Almonds	Citrus (Florida)	Citrus Trees
Apples	Fresh Mkt. Sweet Corn	Macadamia Trees
Citrus (AZ-CA, TX)	Fresh Mkt. Tomatoes	Nursery
Dry Beans	Forage Seeding	Raisins
Canning Beans	Forage Production	
Cranberries	Peppers	
Dry Peas	Sugar Beets	
Figs		
Flax		
Fresh Plums		
Green Peas		
Grapes		
Macadamia Nuts		
Onions		
Popcorn		
Peaches		
Pears		
Prunes		
Potatoes		
Rye		
Safflowers		
Sugarcane		
Sunflowers		
Stonefruit		
Canning & Freezing Sweet Corn		
Table Grapes		
Canning Tomatoes		
Walnuts		

3. All selected crop policies will be adjusted to a 1.10 loss ratio.
4. Standard NCS procedures will apply in all other instances (*e.g.*, filing dates, disaster adjustment procedure (DAP) factors, reconsideration, etc.).

In summary, these measures clearly demonstrate FCIC's commitment to comply with the requirements of the Appropriations Act and OBRA 93.

Reference. You also indicated that as NCS is expanded, "greater flexibility in selection may be authorized whenever program factors that let to poor experience have been identified."

Question 6. What are some examples of factors that may be considered?

Response. There are two examples which demonstrate flexibility in making NCS selections. A key component in the operation of a sound crop insurance program is the establishment of an accurate APH yield on which to base coverage. FCIC has discovered that APH yield accuracy is dependent on the number of actual yields provided by the producer. However, actual yields or sufficient numbers of actual yields are not always available. In the absence of adequate actual yield data, FCIC uses estimated yields to complete APH yield determinations. The methodology and information on which the estimated yields are determined is not exact. As a result, coverages in some cases may be overstated, resulting in poor insurance experience (*i.e.*, excessive loss ratios) for individual insureds. Where this has occurred, variations in the criteria used to select individuals for NCS adjustments have been made (*e.g.*, increasing the adjusted loss ratio threshold).

Another situation in which FCIC alters its NCS selection process is in applying disaster adjustments. Disaster adjustments are made when the yearly county average yield is significantly lower that the long term county average. Individual insureds should not be penalized by NCS when the county as a whole has experienced similar production losses. Under these procedures, indemnities paid to the insured are adjusted downward to reflect the loss in production which exceeds the normal variability in county yields. Therefore, the adjusted insurance experience for the insured is improved and NCS adjustments may no longer apply. Flexibility in applying these procedures is provided in determining yearly average and long term county average yield when sufficient data is not available or changes in production trends alter disaster adjustment determinations.

Question 7. Were some of these factors used in fiscal year 1994? If not, why not?

Response. Yes. FCIC utilized higher adjusted loss ratio thresholds and disaster adjustments in instances where they applied (*e.g.*, the adjusted loss ratio for soybeans in several southeastern States was increased from 4.0 to 5.0).

Reference. A modified Actual Production History (APH) is used as the basis for this proposal. In my State, and several western States, we have had a serious drought situation that has extended over a number of the past 7 or 8 years. This has had the effect of dramatically changing the production histories for the short-term (10 years) but would not dramatically change over the long term (30 years).

The Midwest, with the floods this past year that will extend for some producers for a number of years, will have the same result.

Question 8. How will your program take into consideration this sort of situation?

Response. FCIC is considering several options to address this problem. The option which may be the most promising is referred to as Catastrophic Yield Adjustment. Under this approach, the insured's APH yield used to determine coverage will not be less than the insured's actual average yield or a percentage of an FCIC estimated yield for the individual farm. Other possible options include the continued use of current yield limitations which limit the reduction in the APH yield from 1 year to the next by a set percentage, presently 10 percent. Yield limitations are not entirely effective at maintaining the APH yield where several successive crop failures occur and to a lesser extent when there is total crop failure. Another option is to allow the producer to buy up to a higher yield such as the insured's average yield after eliminating the catastrophic year. However, the premium charged the producer for such coverage may be prohibitive depending on the individual situation.

Question 9. If counties that had been declared disaster counties were able to not have that year counted in the yield average, what would be the cost—or using ASCS yield or T-yield?

Response. The impact of using a Catastrophic (CAT) Yield Adjustment, where the CAT yield was set at 70 to 80 percent of the T-Yield, has been estimated for wheat and cotton. In these studies, the CAT adjustment increased APH yields for wheat from 16 to 20 percent over the actual average yield and 39 to 45 percent for cotton. Other studies have indicated that losses will increase approximately 1.5 percent for each percent increase in the adjusted APH yield over the actual average yield. If the T-Yield or ASCS yield, which is approximately 10 percent higher than the T-Yield, were used as the CAT yield, losses would increase accordingly.

Question 10. What would the numbers and the cost be if the 1.1 standard were used nationwide on an individual producer basis?

Response. The actual number of those selected would have been very minimal over those selected under standard and modified NCS had the 1.1 loss ratio been applied on an individual basis. This is due to the fact that under standard NCS selections the rate was not adjusted forward to reflect 1993 rates as was the case under the modified NCS. Adjusting to the 1993 rates prior to making selections adjusted the policyholders history to reflect the effects of a rate increase which decreased the loss ratio for those insureds eligible for selection under modified NCS. Standard NCS selections were not adjusted on the basis of 1993 premium rates, which resulted in their selection for NCS on their actual insurance history.

Question 11. What is the risk for the insurance companies versus the risk to the taxpayer under your proposal?

Response. Private insurers will have virtually the same risk borne under the current MPCI Program. While FCIC has not developed a plan, it intends that the companies will share in the risk at the CAT level just as they do under MPCI. Increased delivery and subsidy costs (risk to taxpayer) compared to the risk borne by the private sector insurance companies have not been analyzed.

Question 12. How many farmers who have received disaster payments in the past few years will not receive payments under your proposal?

Response. Two categories of producers would not receive benefits under the proposal as compared to ad hoc disaster programs. First, those who fail to enroll in the catastrophic protection would not be eligible. Some number of these individuals would not be eligible for reasons such as violation of the conservation or the controlled substance provisions of the Food Security Act of 1985, or other reasons for ineligibility for Federal program benefits. Others decline to participate in Federal programs for personal reasons. These individuals possibly failed to file disaster claims even if eligible, and likely would refuse to participate in the catastrophic coverage. The other category of persons who will not receive benefits are those who suffer losses between 40 and 50 percent of yield. Ad hoc disaster assistance to uninsured producers typically began to compensate at yield losses exceeding 40 percent whereas the reform proposal requires a 50 percent loss.

Question 13. How will the premium rebate to the insurance companies work?

Response. Under the current Standard Reinsurance Agreement (SRA), all companies receive the same administrative reimbursement as a percentage of premium written to cover operating and administrative costs. Under the proposed legislation, premium rates will be restructured to reflect both direct premium subsidies and the insurers expense reimbursement allowance, a more realistic calculation. More efficient companies will be allowed to pass along lower overhead costs in reduced rates charged to farmers, creating a more competitive market.

Reference. Some of the counties in my State where the NCS has been implemented are having difficulty getting yield data for crops where policies have been written in the past.
Question 14. How long do they have to wait and will this continue to be the case?

Response. In the context of the current Insurance Program and NCS Operations, it is not clear how the availability of yield data and policies written in the past are connected. If additional details on this issue can be furnished, a response will be provided as quickly as possible.

Question 15. How many States could meet the 1.1 criteria?

Response. The 1.1 criterion is not an absolute ceiling on the annual loss ratio but instead is an expectation over a period of years. In its *Blueprint for Financial Success* published in the FEDERAL REGISTER on April 6, 1994 (pages 16167–16174), FCIC requested readers to comment on the appropriate means by which achievement of the standard can be measured. FCIC also has cooperated with the Economic Research Service to conduct research aimed at defining a “normalized loss ratio,” which is a measure of adequacy of current rates after adjusting for abnormal weather. For example, the disaster in the midwestern States in the 1993 crop year is an abnormality that should occur infrequently. It would be difficult to demonstrate achievement of the 1.1 criterion if this year is included in a short period of years. Once public comments have been received and evaluated and the research is completed, FCIC will be in a position to measure achievement of the criterion.

Senator McConnell's Questions

Question 1. Kentucky is attempting to find new crops and diversify—how would a tomato or squash producer be impacted in an area-wide loss designation? What assistance would the producer be eligible for? What if this producer is the only one suffering a loss in the county, what would the producer qualify for?

Response. If there is no crop insurance policy in the county for the crop, protection for the commodity would be provided through the Noninsured Assistance Program provisions of the administration's proposal. If an area's average production for the crop falls below 65 percent of the determined area yield, Noninsured Assistance Program benefits would be available to the producer if the producer's individual production is less than 50 percent of his or her average yield. If the area average production for the crop does not fall below 65 percent of the determined area yield, there would be no assistance for the individual producer's loss. We feel that this coverage is superior to the status quo because several area losses in one, two, or three States may not be enough to necessitate congressional action. Under the administration's proposal, these losses would trigger assistance. Under the current Disaster

Assistance Program, there is no protection for the individual's loss if congressional action is not necessitated by a widespread crop disaster.

Question 2. Why does Kentucky have less than 29 percent of eligible acres covered by FCIC?

Response. The forces shaping a farmer's decision to purchase crop insurance are complex. Participation in the program is voluntary and, while it is subsidized, costs the farmer money. Participation is affected by the availability of insurance programs for crops grown, understanding of program features, the perceived value of the product, economic strength of the farm operation, prevailing weather conditions, availability of alternative risk management strategies, and the advice of authorities like extension agents, bankers, and farm managers.

One of the most frequently cited reasons for low participation is the consistent availability of ad hoc disaster payments. Most farmers are reluctant to spend money for assistance that they can receive free. In this context, our proposal to reform the Crop Insurance Program to provide a catastrophic loss benefit for a small fee is the most cost effective way of reconciling these programs into one coherent risk management policy.

Question 3. Over the last several years we have had seven different disaster relief bills approved by Congress responding to emergencies involving widespread crop loss. What is to stop Congress from passing future ad hoc crop loss disaster relief?

Response. The administration's proposal contains protection through the conventional crop insurance programs, group risk program, catastrophic crop insurance protection and noninsured assistance program which would provide assistance to all producers of food and fiber. These programs would provide, at the minimum, the equivalent of recent ad hoc disaster assistance provided by Congress. It is the intent of Administration to reduce the pressure on Congress to enact ad hoc disaster relief by providing sufficient protection to producers through the proposal. A major component of the proposal is the requirement that the producer purchase at least the catastrophic level of crop insurance, where it is available, to participate in USDA programs such as the Price Support, Production Adjustment, Conservation Programs and FmHA Loans. The administration's proposal contains specific measures to ensure that these linkage requirements are enacted through the following legislative changes:

Repealing section 208 (7 U.S.C. subsection 1446i.) Disaster payments for 1991 through 1995 crops of peanuts, soybeans, sugar beets, and sugarcane.

The Food, Agriculture, Conservation, and Trade Act of 1990 would be amended by striking Chapters 1, 2, and 3 of subtitle B, Disaster Assistance, Title XXII effective on the date of enactment of the administrations proposal.

Amending the Balanced Budget and Emergency Deficit Control Act of 1985 by striking subparagraph (i) and inserting the following new subparagraph:

> *If, for any fiscal year, appropriations for discretionary accounts are enacted that the President designates as emergency requirements and that Congress so designates in statute, the adjustments shall be the total of such appropriations in discretionary accounts designated as emergency requirements and the outlays flowing in all years from such a appropriations: Provided, that this provision shall not apply to appropriations to cover agricultural crop disaster assistance.* [Emphasis added.]

It is anticipated that participation in the Crop Insurance Programs will increase from the current 33-percent participation to 80-percent participation as a result of the linkage requirements.

Question 4. How was the level of catastrophic insurance determined?

Response. The level of catastrophic coverage was established so that the payment 15 competitive with recent ad hoc disaster programs in the event of a major disaster affecting the producer. Several of the recent ad hoc disaster programs have been subject to proration of benefits at 50.04 percent due to budget limitations. The level of catastrophic coverage offers greater benefits unless the loss is quite small. At the 100 percent proration of disaster benefits, the reform proposal still is very competitive, especially if deficiency payments are large. The Department believes that an alternative to the ad hoc programs must offer equivalent benefits if it is to be credible.

Reference. Many people were adversely affected by the 1988 Drought and the 1993 Flood.

Reference. Many people were adversely affected by the 1988 drought and the 1993 flood.

Question 5. If given these same circumstance how many producers would not be covered under the Department's new FCIC proposal?

Response. Only those who failed to enroll in the catastrophic level of coverage or who produced a crop not covered by the reform proposal. Crops not covered under the reform program would include those crops not currently eligible for crop insurance and not covered under the Noninsured Assistance Program (NAP). The crops covered under NAP include food and fiber crops. For example, this excludes ornamental aquaculture, but includes food aquaculture.

Reference. The current Crop Insurance Program has been inconsistent, costly, and fraught with administrative problems.

Question 6. What alternatives has the FCIC looked at?

Response. FCIC is undergoing many changes which will directly affect the way we do business in the insurance industry and the manner in which the Crop Insurance Program will benefit the individual farmer and crop producer.

FCIC has aggressively implemented changes that support fiscal responsibility while assuring effective risk management for farmers, such as:

- offering more effective late and prevented planting coverage which automatically covers farmers in these situations;
- modifying the methods by which insured yields are determined so that farmers can use their own records more effectively. Farmers who consistently produce better than average yield will have insurance consistent with their capability, as will those farmers who consistently produce less than the average yield;
- introducing a database of taxpayer identification numbers that will track the insurance experience of individual growers and assures that this information is used in yield determinations;
- expanding the Nonstandard Classification System (NCS) to certain individual producers within counties which contained a loss ratio, after applying 1993 rates, greater than 1.10 for more than 70 percent of the years the crop had been insured in the county. FCIC is expanding the NCS consistent with the goals of this appropriated direction, and will expand the NCS program to all crops which apply, for the 1995 crop year; and
- making incremental changes, which began implementation in 1992, to the Standard Reinsurance Agreement and will impose greater risk upon commercial insurance companies. This indicates that FCIC has made significant strides in working toward a sound insurance program.

FCIC has also increased emphasis on compliance to the program policies, developing new underwriting procedures, and developing changes in premium rates to reflect experience, all of which contributes to the goal of fiscal responsibility and offering producers an attractive insurance product.

These are just a few examples of major improvements which FCIC has implemented to make the Crop Insurance Program a more financially responsible program. In reviewing the program, we considered permanent disaster legislation or crop insurance reform.

Question 7. How does this proposal increase competition among insurance companies?

Response. Private insurers will experience increased competition in the placement of catastrophic level coverage policies and subsequent "buy-ups" to higher levels of coverage. If current participation figures are correct and linkage requirements implemented, private insurers will need to compete strongly with the Farm Service Agency and other insurers in the placement of catastrophic level coverage to increase premium volume. This alone should become a basis for the private insurer to steer potential applicants for MPCI from Federal delivery and to promote and sell "buy-up" coverages.

Question 8. What risk has been borne by insurance companies?

Response. The Standard Reinsurance Agreement (SRA) between FCIC and private insurers, uses both proportional (quota share) and nonproportional (stop loss) reinsurance to allocate MPCI underwriting gains and losses by State by reinsurance fund. The SRA has three reinsurance funds (Assigned Risk, Developmental, and Commercial) in which an insurer may designate a policy depending on the amount of premium and potential loss the insurer wishes to retain. The insurer's reinsurance loss is calculated by fund for each State, with the total of all States being the insurer's total underwriting gain or loss. The maximum possible underwriting loss exposure in the 1994 SRA for $1.00 of retained premium is $1.10 in the Assigned Risk Fund, $1.32 in the Developmental Fund, and $1.75 in the Commercial Fund.

Question 9. How will current coverage at the 65-percent- and 75-percent level compare in premium cost to the Department's proposal?

Response. Assuming constant premium rates, the farmer's out-of-pocket cost would decline by about 17 percent at the 65-percent coverage level and by about 8 percent at the 75-percent coverage level. For example, a farmer who now pays $5 per acre to insure a crop at the 65-percent coverage level would pay about $4.15 under the reform. If the current cost of 75-percent coverage to the farmer was $8 per acre, the cost under the proposal would be $7.36. As premium rates change to reflect insurance experience in an area, these reductions must be stated with regard to the amount that otherwise would be payable by the farmer. For example, if FCIC found it necessary to increase the premium rate for 65-percent coverage by 15 percent, the farmer would save only 2 percent compared to the previous year, but 17 percent compared with the amount that otherwise would be payable under the higher premium rates.

Senator Baucus' Questions

Reference. Much of what I've heard at today's hearing sounds good. However, there are several key points which I've not heard addressed. These are points I feel impact this debate significantly and I'd like to have them discussed.

I believe that as this Agency, the Federal Crop Insurance Corporation, is reorganized into a Farm Service Agency through the reorganization of the USDA, several questions arise.

Question 1A. Is the FCIC a regulatory agency or a policy formulating agency?

Question 1B. Can they perform both functions?

Question 1C. Are they doing a good job now? (While these questions might appear inconsequential to the direct debate, I would disagree. If we are going to increase the budget of the FCIC operation and increase the risk exposure of the Federal Government, I believe these points are very relevant.)

Response. The Federal Crop Insurance Corporation (FCIC) regardless of the reorganization of USDA will be both a regulatory agency and a policy formulating agency. As a Federal agency, the FCIC establishes the standards for the administration of the multiple peril crop insurance program. This encompasses a wide range of areas including data reporting requirements, yield determination, and underwriting methodologies and procedures, loss adjustment procedures, and the operating agreements that companies enter into to sell and service crop insurance.

Additionally, FCIC serves the role of a regulatory agency because it is responsible for the overall program oversight. The FCIC has a compliance function with six field offices throughout the United States and conducts a variety of reviews of the policies sold and serviced by the entities authorized through agreements or contracts to sell and service multiple peril crop insurance policies.

The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) also directs FCIC to take actions needed to achieve a long-term projected loss ratio of 1.1 by October 1995. FCIC is committed to achieving this goal. Sound management to achieve the goal will promote the long-term stability of the program and help maintain the financial stability of American Agriculture. To that extent FCIC has developed a Blueprint for Financial Soundness which is a comprehensive plan to achieve the targeted loss ratio mandated by OBRA 93. This plan details 13 different areas for improvement which target the regulatory and policy formulating functions of the FCIC.

FCIC is very confident that it can perform both functions and feels that its past record in these areas reflect such. Recent General Accounting Office and Office of Inspector General Audits have recognized improvements that FCIC has made in these areas.

Question 2. Under the new actual production history rules, would it be possible for a farmer to change a policy for a specific farm or field from winter wheat to spring wheat weather prevented planting of the initial crop? Under current rules, a farmer in this situation would be treated poorly. Even if said farmer had a spring wheat history in a different sector of the farm, for this field, his APH would be lower than ever that for a beginning farmer. That situation is not appiopriate and should be addressed.

Response. For the 1995 crop year FCIC has developed draft procedure, under consideration within the Crop Insurance Industry which, if approved, will address this particular situation. The proposed procedural change allows producers who plant a practice, or variety on a farm without a history to obtain higher yield offers based on other farms that same practice, type or variety. In the situation you describe, if spring wheat history not available for that farm, then the producer would receive a percentage of the FCIC Transitional Yield based on the history of the same practice, type or variety on the nearest qualifying unit with that same practice, type or variety. Therefore, if this producer has a spring wheat history with at least 3 years actual production history records reported, he/she would qualify for 100 percent of the FCIC Transitional Yield for the farm when the practice, type or variety is being grown or used for the first time.

Reference. Much of the debate for this reform is based on the assumption that farmers—large numbers of farmers—will buy the upgrades. If the product is perceived as a sound tool for risk management, I believe that assumption is correct. To end, it is important that the premium crops, like durum and malting barley be afforded coverage that recognizes their increased prices and elevated input costs.

Question 3. What the provisions for add-on coverage for these premium crops?

Response. The FCIC currently offers a variety of crop programs such as dry beans where elections vary by type. The different prices reflect the market value and input costs associated with the various types. In the case of malting barley, FCIC offers a higher price on and an endorsement that provides protection for higher quality standards than regular. Currently, FCIC does not establish price elections by wheat type. FCIC is open to evaluating the possibility of providing separate price elections by wheat type if data is available to assure sound actuarial principles and market projections can be established.

Reference. Currently, a farmer who purchases winter wheat coverage and intends to plant spring wheat as well, must make changes in the spring wheat coverage in the fall prior to planting.

Question 4. Will this flexibility in planning they would have if they produced only spring wheat?

Response. The Crop Reform Legislation does not address this situation. For the 1995 crop FCIC has made policy revisions which allow producers, in some situations, to have separate insurance units for winter and spring wheat, to choose winter coverage options, and to receive a replanting payment for planting spring wheat after winter wheat has failed. FCIC is currently evaluating the possibility of offering separate coverage and price level changes between winter and spring wheat.

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ISBN 0-16-047516-3

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